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The COMMERCIAL and FINANCIAL CHRONICLE

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Germany Revisited

By JAMES S. KNOWLSON*
President and Chairman of Board, Stewart-Warner Corp.

Asserting, despite physical progress in re-establishing tools of industry, no advance has been made in solving basic problems of German economy, Mr. Knowlson described present unsatisfactory situation in food, coal, transport, and inflation. Concludes German economy is running down hill, notwithstanding U. S. and British aid, and holds aim to reduce Germany to pastoral state is "biting off nose to spite face." Sees need for new capital investment in Germany and contends keeping Germany in chains will mean a communistic Europe.

Published accounts of conditions in Germany today are apt to leave one with the feeling that our occupation of the German territory has been badly handled and that the accomplishments of this occupation have been practically nil.

James S. Knowlson

However, anyone who traveled through the ruined cities of the Reich in 1945 cannot fail to be impressed with the things that have been done in reviving what, at that time, was a wholly paralyzed urban economy.

In 1945, the streets in most of the cities in Germany were so clogged with rubble that many were entirely impassable for cars. Telephone poles lay on the ground and telephone and power wires looped themselves along the roadside, and along both sides of these same roads a never-ending line of people moved on foot—men, women, children—whose every possession was on their backs or in pushcarts. Aimless, homeless, beaten. When you approached they drew back to give you room. Fraternization of our troops with Germans was forbidden.

Long lines of freight cars stood idle on sidings because the overpasses had been dynamited. Nothing moved on the rivers, for bridges blocked the streams. There was no telephone—no mail service. Water mains were largely out of commission.

You felt everywhere you turned, that except for the occupation troops all city life was in a state of suspended animation.

Today this is all changed. Bridges still lie in the rivers, but a section has been cut away and a channel opened through which boats are moving. The railroads are running. Road bridges, in a large part, have been replaced or good detours made available. Telephone lines are up and carrying messages. The endless line of homeless wanderers has disappeared.

While very few buildings have been repaired, you will see here and there behind boarded-up

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*An address by Mr. Knowlson at a luncheon meeting of the Chicago Association of Commerce & Industry, Chicago, Ill., Aug. 20, 1947.

What Is the Future of Air Transportation?

By SIGMUND JANAS*
President, Colonial Airlines, Inc.

Asserting air transportation has crossed threshhold of uncertainty and will have a development seldom equaled in history of American enterprise, aviation executive points out adverse as well as optimistic trends. Holds airlines have weathered critical point in transition from war period and are on upward surge. Sees opportunities in airlines' stocks.

My remarks to you today will be directed toward the much discussed current question in both transportation and financial circles: "What does the future hold for the air transportation industry?" Volumes have been printed and spoken on this subject during the critical period since the late war ended, and I can only hope in my brief remarks to skin the surface of so broad a subject, and to highlight some intimate observations gleaned in my executive capacity as President of Colonial Airlines.

Sigmund Janas

Unfortunately, I think, much has been written and spoken on the subjects of both aviation and air transportation by many who lack the qualifications to speak with authority on those subjects. Let me assure you that even though I have been either directly or indirectly engaged in the business of air transportation almost since its inception in this country,

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*An address by Mr. Janas before the New York Society of Security Analysts, New York City, Aug. 20, 1947.

EDITORIAL

As We See It

The Cost of Tinkering with Prices

So accustomed has the American public become to the underlying notion of direct or indirect price control that many of us appear no longer to realize what is involved. Certainly we do not seem to have even a suspicion of what these policies are costing the world today. Many probably have never dreamed that much of the difficulty about which there is so much complaint at present stems inevitably from some form of price tinkering. Yet this is a fact well known to thoughtful economists everywhere.

Take first the international field. We hear a great deal of "dollar shortages" everywhere today. We have been informed rather dramatically that very large drafts by the British upon the balance of their loaned dollars were necessary to make currently acquired sterling balances "convertible," and to avoid "discriminatory" purchases of goods in countries other than the United States. In a technical sense all this may well be true—although it remains to be seen whether release from contract restrictions in respect of these matters does very much to relieve the situation.

What very, very few appears to understand is that all this goes back to the dollar price set for the pound sterling. "Convertibility" of current sterling balances means in this case convertibility at an arbitrarily fixed dollar-pound rate, and it is this fact which is, of course, responsible for the embarrassment of the British. It is

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Prices, Wages and Profits—A Plea for Labor-Management Understanding

By F. D. NEWBURY*

Director and Former Vice-President, Westinghouse Electric Corp.

Industrialist ascribes mental chasm in thinking of management and of organized labor as due to different sets of economic principles, and holds problem of correction is one of education to bring the two together. Contends profits in relation to investment have been declining, and points out high profits, high productivity, and skillful management are essential to full employment and high wages. Denies monopoly is an increasing factor in industry.

I have been asked to talk about prices, wages, and profits as management sees them. I am going to do this, but I have added a sub-title to this address: A Plea for Labor-Management Understanding. I have one purpose only: to bring to your attention and to emphasize the vast chasm—a mental Grand Canyon—that separates the thinking of management from the thinking of organized labor on these important economic subjects. While doing this, I wish to avoid any semblance of argument or debate. At the moment I am not interested in trying to convince you that management's views are right; I am interested in telling you what they are merely to demonstrate how different they are from the views that come from labor economists and from labor officials.

F. D. Newbury

I wish to bring to your attention three points that result from this mental chasm:

(1) My first point is that management believes in one set of economic principles; organized labor believes in a very different set of principles. Principles are important. They determine the way labor thinks and the way management thinks. Consequently labor and management have reached different answers to problems about wages, prices, and profits, over the years, and particularly during the past two years of reconversion to peacetime production.

Labor and management look at these fundamental economic relationships so differently they might as well be talking two different languages without benefit of interpreters.

(2) My second point is that unless labor and management learn to talk the same economic language—to believe in and apply the same economic principles—there is little chance that labor and management will get together, understand each other's position, and cooperate as well as we all hope they will.

(3) My third point is that progress in this direction is a problem of education. Permanent progress will depend on educating the new generation of labor officials and management officials, executives, and supervisors to a common understanding of the fundamentals of joint problems. Forget what Mr. Reuther believes; forget what I believe. We are both too set in our opinions to change them. The hope of real

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*An address by Mr. Newbury before the Labor-Management Conference, New York School of Industrial and Labor Relations, Cornell University, Ithaca, N. Y., Aug. 21, 1947.

Foreign Trade, Loans and Prosperity

By DR. MAX WINKLER*

Consulting Economist, National Securities and Research Corp.

Dr. Winkler reviews foreign trade figures and sees an export deficit of $5 billions for Europe and $2 billions for Latin America. Although asserting America's program to aid in world reconstruction is sound on purely economic grounds and desirable for humanitarian reasons, holds existing barriers impair or destroy ability of foreign debtors to meet their obligations and should be removed.

Nowhere are the needs for American goods and for dollars to buy them with more concentratedly reflected than in U. S. export and import figures. If needs are held within reason, imports (a reason of payment) increased and ways of financing the balance found, the problems of world rehabilitation may be largely solved. But success or the degree of failure should be shown, perhaps more plainly than anywhere else, in our export-import picture. Important among the questions raised is whether this country would, or even should, run the risk of impoverishing itself in order to aid world recovery and prevent a new worsening of conditions.

Dr. Max Winkler

One reason why this question is raised is the sheer size to which our foreign commerce has swelled. America's foreign commerce for 1947 is estimated, on the basis of available statistics for the first half of the current year, at over $20,000 million, compared with an actual turnover of $14,679 million in 1946, an annual average of $5,456 million for the period of 1936-38, $9,640 million in 1929—a banner year in world trade, and $4,277 million in 1913.

Before proceeding further, it might be interesting to discuss some of the trends shown and conclusions indicated in the accompanying table. It is evident first that Africa has been and remains the least important of the regions covered. Europe has been throughout the most important taker of our exports, but has declined in importance as a source of imports, this year and last, occupying fourth place among the five regions. Latin America has grown greatly in export importance, and occupies first place in imports. The relative positions of Canada (Northern North America) and the Far East (Asia and Oceania) have not changed so much. While we have had export balances with all five regions recently, in the past Latin America and the Far East have usually shown import balances.

Exports and Employment

Record-breaking figures for employment and corporate profits, exceeding even those recorded during the war, are due, to a very large extent, to the unprecedented volume of foreign trade. In some respects, the size of our foreign commerce is alarming: Our favorable balance of trade with the rest of the world is at an annual rate of $9,360 million compared with a balance in our favor of $4,807 million last year. How Europe will be able to meet a trade deficit of almost $5,000 million or how Latin America can possibly take care of a deficit of close to $2,000 million, is hard to tell.

European dollar balances of all categories and holdings of U. S. securities, estimated at $12½ billion could thus be used up in

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*Reprinted from "Investment Timing," Aug. 14, 1947, published by the National Securities & Research Corporation, New York City.

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The Securities Business and Securities Acts

A Few Problems and Some Guesses

By FRANCIS ADAMS TRUSLOW*
President, New York Curb Exchange

Outlining functions of Securities industry as: (1) raising capital; (2) investing capital; and (3) providing a market, Mr. Truslow says these can be impaired by provisions of the Securities Acts. Sees revision of Acts required and recommends: (1) simplification of registration and of prospectuses; (2) giving investing public advance information, and (3) reduction of mandatory period for submitting prospectus with sales. Attacks margin restrictions as "illogical" and scores limiting information requirements to listed securities. Advocates, when security is registered, pledge be given to furnish future data and comply with proxy regulations.

Any glance back over the last 50 years of the securities business will reveal that that business has exhibited a remarkable capacity to accept change and to adjust its procedures to increased demands and to new points of view. Any attempt to glance forward is, of course, merely an attempt to guess, but I will hazard the guess that even though future demands on our business may be enormous in their volume, and even though future points of view as to how the business should be operated may differ widely from those held today, our business will satisfy those demands and will adapt itself to those new points of view. My guess is based partly on our past record, and in part on the hope and expectation that our offices will continue to be staffed by men who are energetic and who have the capacity to understand and accept change. Energy and adaptability are youthful virtues and we will always desperately need those virtues and the young men who own them.


Francis A. Truslow

Although its roots go back nearly a century, the New York Curb Exchange, in its present form, is relatively young in the age scale of great financial institutions. Perhaps this relative youth is the source of that energy and adaptability which this Exchange has exhibited so fully in this recent period of great change. I also have some claim to youth and, therefore, am delighted to exaggerate, if that is possible, the importance of meeting you young bankers and brokers in the surroundings of the New York Curb Exchange.

You have asked me to refer, in my talk today, to the Securities Act of 1933 and to the Securities Exchange Act of 1934. I plan to do your bidding by suggesting to you the size of the job that may need to be done by the securities business in the next few years under the conditions established by those Securities Acts, and by suggesting some of the problems that may arise in the doing. If time permits, I may also indulge in some guessing as to how a few of those problems will be solved—although I assure you my guesses are no better than yours.

Functions of Securities Industry

The securities industry performs three broad functions. It raises capital for industry; it invests capital for individuals and it provides a market for the purchase and sale of documents evidencing the capital which industry has acquired and individuals have invested.

Sitting here in 1947 and peering into the next few years, it may not be altogether a waste of time to guess at the size of the job which we may be called on to perform in carrying out each of those three functions.

If forced to select I would say that the job of raising capital for industry is the primary responsibility of the securities industry. It is this function of our business which will, I believe, be subjected to the greatest demand during the next few years. In a recent speech Lionel D. Edie, one of the most competent economic analysts of our time, expressed the opinion that during the next five years American business will require about $105 billions of new capital—or about $21 billion a year—to support a dollar value of business within 5-10% of the present level. He estimated that of this huge annual requirement $6½ to $7 billion must be raised in the new capital markets and through bank loans and similar sources. If we accept his analysis, the alternative to meeting this need will be a proportionate reduction in the gross national product with consequent economic depression. Whether or not we fully accept Edie's estimates, we must, I believe, recognize that the amount of new capital which industry must obtain in the next few years will be very great if we are to avoid a major depression. We must also expect that a large part of those requirements can only be supplied through the work of the securities industry.

In these years ahead, about which we are attempting a guess, the second function of the securities industry—the investment of

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*An address by Mr. Truslow, before the Union Investment Bankers and Brokers Association of New York City, Aug. 26, 1947.

The Investor Looks Abroad

By COL. HERBERT G. KING
Member, New York Stock Exchange

Col. King contends investing public has become too much alarmed over European conditions and there is too much pessimism over England's position. Looks for revival in Britain and says economic conditions in Russia are so bad, she must have peace.

Of late, the investing public has allowed itself to be too much influenced by fears of what may happen abroad. Wall Street has now become the financial capital of the world and many security holders shudder every time they hear some dole prediction on the foreign situation. People who should know better, become alarmed every time a politician in England, Russia, or Greece makes a speech and many a profitable position in the market has been sacrificed because of some needless scare that was soon forgotten.


Col. Herbert G. King

To begin with, it seems to me that the pessimism over England's condition has been greatly over emphasized. Just one-hundred years ago, Ralph Waldo Emerson was in England and he was invited to make a speech at a city banquet in Manchester. The City was in a terrible condition, because a severe European depression was taking place, aggravated by political uprisings and crop failures throughout the continent and the British Isles. But what impressed Emerson most was the gloom that was prevalent throughout England. Prophets were predicting the end of everything. The speech he delivered is preserved for us in his "English Traits" and we can still read how cheerfully and confidently he told the British to take no heed to the prophecies of an approaching end of the nation. He reminded them that earlier, John Milton had said the same to his countrymen in his beautiful "Areopagitica."

There have been prophets of doom in all ages. The horrors of 1847 and 1848 passed away from Europe and were soon forgotten. Great Britain became many times more wealthy than in the days of Emerson and a great empire took the lead in the creation of wealth and the advancement of science and civilization throughout the world.

A recent conference of bankers in London brought out the interesting fact that the city of London is still the largest insurance and reinsurance market in the world and that overseas banking is bringing the country a profit that rose to $150 millions in 1946. The gloomy side of the British picture is being over emphasized and probably for a very good reason, but the American investor should not allow himself to become unduly alarmed. I personally believe that there will be a tremendous revival throughout Great Britain within the next two years and that none of us will live to see the end of the British Empire.

As for Russia, the last thing in the world she could endure or wants is a war with anybody, and least of all with the United States. Russia is in a very bad state. It will be a long time before she recovers from the last war and it will take all her energy and manpower just to survive. In order to continue, Communism must have peace. Internal dissention and privation are increasing and Stalin has been slipping ever since the war ended. The present regime there will be very lucky indeed, if they can retain their power. Economic conditions are formidable enough to keep them occupied for a long time to come.

If investors will stop worrying about Europe and pay more attention to our own domestic problems, they will profit more. The investment market as a whole, represents a well considered effort on the part of far-sighted and well informed men to adjust prices to such values as are expected to exist in the not-to-remote future. The future looks very bright for us, indeed, and optimism over our domestic outlook will be infinitely more profitable than any false pessimism over European affairs.

BUSINESS BUZZ

"Stop sub-letting this roll top desk!"

Food Prices Not Out of Line

By C. CHESTER DU MOND*
N. Y. State Commissioner of Agriculture

Mr. Du Mond points out higher prices of food are due mainly to higher production costs and more food is being consumed in U. S. because of higher individual incomes and rising standard of living. Foresees no food shortage here, despite relief contributions to Europe, and denies farmer is profiting at the expense of the rest of the population.

There is a great hue and cry over the land today regarding the high cost of food. Few people who consider or discuss the subject seem to realize the many basic facts which are behind the seeming high price of food, and because the original producer of food is the farmer they unthinkingly lay the blame for their predicament at his door. They are finding it increasingly difficult to make their incomes match their expenses.


C. Chester Du Mond

Today I want you to consider with me for a few moments the facts underlying the price situation and how those facts affect each of us in our everyday living. Most of us are taking in more money today than we were before the war. We have gauged our mode of living accordingly. I believe it to be a fact that our people today are enjoying a standard of living possibly one-quarter better than ever before. Families which formerly enjoyed meat on their tables perhaps twice a week now expect it every day, and perhaps at almost every meal. Our people as a whole are better dressed, are putting in shorter hours of work, and are taking more vacations than in the past. We must admit that this is desirable and a standard of living to be maintained if possible, yet we have completely forgotten that we have just been through a period when billions of dollars were absolutely destroyed so far as their contribution to human welfare is concerned and that millions of man-hours have been spent producing materials which have been destroyed by war or made worthless by its ending.

When we entered World War II we had cash available in currency in the United States amounting to approximately $8 billion. By 1946 we had issued currency to the extent of approximately $28 billion with which to pay ourselves for producing, not articles which could contribute to our standard of living, but material to be used in prosecuting the war. We have all, therefore, suffered a net loss in wealth, since wealth is only produced by constructive effort. It would seem logical that instead of expecting to live better today we should expect to be making great sacrifices in our diet and our conveniences of living, to make up for the time lost in unproductive effort.

It is quite true that our national income, which is a total of the take-home pay or income of all of us, has reached a point which is the highest in our nation's history. I understand that the national income this year, based on March figures, will be $193 billion. We must understand that the dollar is only a medium of exchange, that instead of trading goods of real value for other similar goods, we use money to make the exchange

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*An address by Commissioner Du Mond over Radio Station WGY, Schenectady, N. Y., Aug. 21, 1947.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

A slight rise in over-all industrial output above that of the previous week took place the past week. This improvement occurred notwithstanding the closing of some factories because of the excessive hot weather. This condition is of a seasonal nature and played a very negligible part in cutting production during the war, and now with the pressure of demand so great the hot weather toll on production continues to remain small.

In the matter of employment, the number of engaged workers remained at a high level and labor-management relations with a few exceptions were generally tranquil.

Steel production while slightly lower the past week is scheduled to operate at a higher percentage rate of capacity the current week. Output of machine tools and gauges increased moderately along with a continued rise in demand of heavy industrial equipment and supplies. Output of farm machinery was limited by the difficulty to obtain steel and steel parts.

Automotive production the past week again failed to reach its objective of 100,000 units, held down as it is at present by material shortages and some labor disputes. It did, however, exceed the previous week's output by 1,238 units.

Lumber production for the week ended Aug. 9 increased about 4% to 207,235,000 from 198,821,000 board feet, while lumber shipments were about 4% below production and new orders almost 8% below production.

Clothing production increased moderately last week, though the scarcity of certain fabrics persisted. The production of shoes rose slightly and manufacturers proceeded cautiously due to price uncertainties. The state of shoe order backlogs, however, was small.

Civil engineering construction totaled $109,382,000 for the week ended Aug. 21, an increase of 91% above the previous week, while private construction was more than 2½ times that of the previous week.

Included in the news on Wednesday of last week was a forecast by President Truman of a budget surplus for the Federal Government this fiscal year totaling $4,700,000,000, the largest in the history of the United States.

This big surplus is attributed by the Budget Bureau to a phenomenal rise in revenue from excise and corporate and individual income taxes, the new estimates placing revenue at $41,700,000,000 compared with $37,700,000,000 in January.

Lest the taxpayer entertain any thoughts of a reduction in income taxes, the President in announcing his budget forecast cautioned, by pointing out the foreign economic crisis along with the cost of a possible Marshall plan for further aid to Europe might alter future expenditures, adding that the surplus should be continued as a reserve against contingencies.

On Monday of the current week, Henry Ford 2nd, President of the Ford Motor Co., announced price increases on most of its passenger cars and truck models ranging from $20 to $97. Seven months ago the company cut the list prices on its passenger cars from $15 to $50, which, said Mr. Ford, "had the effect of retarding the upward movement of prices." However, he added, that since that time "slowly but steadily . . . the cost of things we buy to make our product has risen."

STEEL OPERATIONS SCHEDULED AT HIGHER RATE THIS WEEK

The steel industry is straining everything it has to keep output at a high level. But the steel shortage measured against consumer demand is expected to continue for some months to come, states "The Iron Age," national metalworking weekly, in its current outlook for the steel trade. The easing off in demand for some major steel products, expected by a few steel officials, has failed to materialize.

The inability of the industry to get the steel ingot rate above 95% of capacity has resulted in an important increase in steel backlogs at many steel firms. Unshipped order tonnage the past week was in greater volume than a few months ago with many producers.

The long term scrap shortage, lack of pig iron and the necessity for mechanical repairs on steel mill equipment, is expected to plague steelmakers for some time, the magazine notes. In the midst of this situation some producers continue to withdraw from territories where the freight absorption is too high leaving customers in that area without a regular source of supply. Some cases involving the temporary elimination of some steel products from the market have been due to enforced reduction in steel output because of blast furnace repairs.

Pig iron requirements for steelmaking and for merchant use are at an all-time high. Because of blast furnace rehabilitation this condition is expected to be serious for several months at least. Some steel firms, "The Iron Age" reports, have been receiving a better supply of steel scrap but they have been unable to lay aside inventories for use this winter. Other sources feel that the steel industry

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The World Crisis

By A. W. ZELOMEK*

Economist, International Statistical Bureau, Inc., and Fairchild Publications

After reporting impressions gained from European trip, Mr. Zelomek contends stable Europe is impossible with a divided Germany, but holds Western Europe will not fall under Russian control. Sees compromise with Russia still possible, and calls for integrated economic plan for Europe as whole. Predicts economic difficulties in Canada if sharp decline in European purchases comes about, and looks for closer trade relations between Canada and U. S. with substantial investment of U. S. funds in Canadian development.

When the war ended just about two years ago, there was widespread hope throughout the Western Hemisphere that the United Nations would form a foundation for permanent peace and prosperity. I hoped as much as anyone that this would be true. But I could not convince myself that the prospects were quite as favorable as many people assumed. The business of our organization requires us to lay personal feelings aside when considering the future. Our sole job is to weigh possibilities as dispassionately as possible and to present the conclusions and the facts whether or not they are what we would prefer to hear.

A. W. Zelomek

A few months ago I visited Europe and made a personal study of conditions in various countries. I had been prepared to observe great hardships and to come in contact with vexing economic and political problems before I left. I confess, however, that it was not many days after my arrival that I became convinced that my earlier pessimism had been, if anything, too mild.

You may perhaps believe that this impression can be explained by the poor food in Europe, by the depressing sight of bombed-out-buildings in England, by the obvious decline of moral fiber in France; I assure you, however, that this was not the case. A return to the comfortable atmosphere of the Western Hemisphere has not caused the least change in these views.

I hope to discuss many subjects in a very brief period of time. Let me say right now, however, that the most vivid impression I brought back from Europe involves the great fear of war that seemed to pervade the thinking of everyone with whom I talked. It is not only the politicians that expect a great clash between the United States and Russia, but the petty artisans, the waiters, the cab drivers and the businessmen.

I know that you are not unaware of this feeling and that you cannot fail to be disturbed about it. Should there be a war between Russia and the United States, it seems very probable that Canada would be in the middle. Fighting might occur in Europe, but it would be a brave student of military trends who would predict that there would be no battles fought on this continent, at least from the air. The great concentration of Russia's military construction in the Far East including Kamchatka and the eastern parts of Siberia, and our own preparations in the Arctic, make it clear that air power and the possibility of atomic warfare have placed Canada in a somewhat exposed geographical position.

Yet I do not believe that such a war will be fought in the near future. I have taken particular pains to guard against over-optimism in this respect and I am convinced that this hope rests on more than wishful thinking. Its origin, in fact, is the economic and political condition of Europe and Russia and the decisive role that will be played by Germany, whether its industries are revived or ravished. It may seem like a paradox that the very acuteness of current European problems is one of the reasons why I doubt the probability of an early war. Let us see if a careful analysis of present conditions will not provide support for this conclusion:

A Stable Europe Is Impossible With a Divided Germany

Theoretically, this statement may not be true. A Western European bloc could probably be supported if the United States was willing to pour $4 or $5 billion annually into the deficit economies of that area. This, however, seems to me to be an unlikely possibility. If I am correct in this reading of political indications in the United States, then the statement that a stable European Western bloc cannot be based on a divided Germany becomes more apparent. Neither France nor England has the economic resources, even if there were no political obstacles, to bring about such a condition.

You know as well as I do that Great Britain's crisis is not a monetary one, but one that has been developing for decades. Before the first world war Great Britain had a sufficient volume of invisible income to more than balance her necessary import deficit. Consequently, she was in a position to make new investments, both at home and abroad. This was the period of her greatest economic and political power.

Between the last two wars her invisible income would pay for import surpluses in good years, but was inadequate in bad years.

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*An address by Mr. Zelomek before the Kiwanis Club of Montreal, Canada, Aug. 21, 1947.

Heim With Cohu & Torrey

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Harrison B. Heim has become associated with Cohu & Torrey, 634 South Spring Street. He was formerly with First California Co.

With Harris, Upham & Co.

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — George P. Davis has become affiliated with Harris, Upham & Co., 740 17th Street.

With Fewel & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Arlene J. Daniels has been added to the staff of Fewel & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange.

With Chas. A. Day & Co.

(Special to THE FINANCIAL CHRONICLE)

SPRINGFIELD, MASS.—Theodore Walcott has become associated with Chas. A. Day & Co., Inc., Washington at Court Street, Boston.

We Must Help Europe, but Keep U.S. Economy Strong

By HARRY A. BULLIS*

President, General Mills, Inc.

Industrial executive asserts it is in our interest to prevent further deterioration in rest of world, but foreign commitments should not be so large as to cripple our economy. Sees mainsprings of strength of our free enterprise system in innovation, investment and competition, and stresses importance of exports. Says challenge to American industry is to increase productivity and to lower unit costs.

The extent to which our Government decides it is necessary to ship the necessities of life abroad will be the key factor in the cost of living at home. The worldwide food shortage is the inevitable aftermath of the war. Doing our utmost to alleviate it is the duty of the United States as a humanitarian nation. It is also to our selfish interest to prevent the further economic deterioration of the rest of the world, and to help to hasten its recovery. However, commitments to foreign nations should not be so large as to cripple our own economy. Only if the United States remains strong can it successfully carry out the new role of world leadership which events of the past decade have forced upon it.

Harry A. Bullis

The mainsprings of strength in our free enterprise system are **innovation, investment, and competition.**

Innovation

In the United States we have over three million separate business enterprises. Each is the result of business initiative and the potential source of something new. Initiative is our defense against our economy becoming like the "tired, regimented Old World economies." We need to encourage the initiative which is necessary to the health and growth of small businesses.

In larger enterprises, of which General Mills is one, we need to keep open many sources of innovation. Only by new things can we keep abreast of progress; and only by steady growth can owners, management, and labor all receive the benefit of satisfactory financial rewards.

Investment

Investment is a requirement of a healthy, progressive economy. If business is to grow, there must be money to put innovation into practice and supply the new plants and new equipment. Investment in General Mills is being increased steadily. In fact, all progressive concerns are increasing their investment. Very few other countries have attained even half the investment per worker which we have in the United States.

Competition and Prices

Competition is a vital part of free enterprise. The competitive principle permits prices to be freely determined by the supply and demand of the market place. It means freedom of entry into any line of business and therefore freedom to compete.

Our economy is in the high tide of prosperity and we may expect the future to bring more, not less, pressure on prices. The essential mechanism of our price system is free markets, without price fixing. As some prices go down, they discourage expansion and the use of workers and resources in the fields where prices are declining. As other prices go up, they represent a signal for expansion in such profitable price-improving lines. Here is the origin of the flexibility and adaptability of American business.

This mechanism is threatened by those who, at the first sign of distress in markets, ask government intervention to fix prices. In one quarter, they may ask government to buy for foreign relief. In another, they may ask the creation of government-protected monopolies. These attacks on free enterprise must be resisted. The flow of purchasing power is far above average, and prices should be permitted to seek their proper relative levels. In fact, to interfere with the flexibility in our price structure at the present time would be tantamount to sabotage of the work which we are doing to rebuild our free economic system.

This should not be construed to deny that, in a period of substantial price declines and substantial unemployment, measures should be taken to expand investment and employment. However, at the present time, employment has reached 60 million compared with about 48 million in 1929. The amount of private investment has reached twice the 1929 level. Price adjustments should now be made steadily, and as more and more lines of production pour forth supplies at lower prices, we will move more easily in the direction of a self-sustaining economy. There is so much "catching-up" needed in the discernible future that we are going to make real progress.

The United States and Europe

This summer I spent six weeks surveying the economies of England and seven countries of Western Europe. What I saw strengthened my conviction that we in the United States must maintain a vigorously functioning domestic economy. We must keep our economy strong if we are to be in a position to make advances to other countries, especially Europe, where reconstruction needs are obvious. We must keep our economy strong if our system is to survive. Only as we keep busy and prosper can we help other nations to win their way back to prosperity. We must realize that the United States cannot long continue prosperous if the rest of the world remains depressed.

Must Get Facts About Our Economy to Peoples of Other Countries

We should let the rest of the world know about the high productive levels attained under our private enterprise economy. We can tell this in terms of the amount and quality of products furnished the American consumer. Generous samples of these products have been going abroad.

We should inform the world about the wages of workers in our free enterprise system. We should tell, too, how the tax gatherer has fared. He has garnered in about $50 billions, with the Federal Treasury accounting for $43 billions, in each of the two years since the war ended.

We should tell the world the secret of how these results are attained—that management has a free hand to produce results, with invested capital per worker in an amount that would be a competence for retirement in practically every other quarter of the globe.

In short, we should tell the world and show the world how the free enterprise system works.

Next, we should help those countries that show evidence of a determination to help themselves. When we as a nation make any loans or advances in the future, we should specify conditions which will help the borrowing countries work out of their predicament; and as they do this, the terms of the agreement should require repayment to us.

Imports Important

To promote such repayment, we should be ready to buy more goods from foreign countries as soon as they have them available for export.

In the past this country has been "export-minded." We have tried to maintain what we call a "favorable balance of trade," exporting more than we imported. Doubtless this relation between imports and exports will continue for a time, but as it becomes evident that in this country as well as in the rest of the world there continues to be a shortage of workers, we will more willingly accept the imports by which alone we can justify our lending policy.

In fact, today we should no more

(Continued on page 14)

*From an address on by Mr. Bullis at the Nineteenth Annual Stockholders' Meeting of General Mills, Wilmington, Del., Aug. 19, 1947.

From Washington Ahead of the News

By CARLISLE BARGERON

SAN FRANCISCO—One of this country's perennial political issues is that between the proponents of publicly owned power projects and the private enterprisers. This issue ante-dated the New Deal. In fact, the public power proponents were our "radicals" of those days. I remember back in the 30's when Homer Bone was elected to the U. S. Senate from the State of Washington. He was loudly hailed as just about the wildest and wooliest thing ever to come out of the West. But before he had an opportunity to show any of this wildness and wooliness in the Nation's Capital, in came the New Deal and he seemed mild mannered and gentle in comparison.

Carlisle Bargeron

Anyway, we've had a lot of propaganda about the merits of publicly owned power, how the people not only get cheap power but the community gets all sorts of revenue which would otherwise go to the private "exploiters."

The State of Washington is one of, if not our foremost public power State. The private utilities have almost been crowded off the map.

Having heard so much about how the coffers of the public treasury are enriched by the publicly owned power projects, you can imagine my surprise to find this State levying the highest sales taxes in the country. What good does it do the people to get cheap power, so to speak, and the State "to make" (even if it's true, which many question) the profit from the manufacture and distribution of power, if those people are still taxed in other ways?

California, too, has a heavy sales tax and in addition, many municipalities have additional sales taxes. Politicians used to make a great play about not applying the sales tax to foodstuffs or the necessities of life. Such political timidity has disappeared in Washington and California. Insofar as public eating places are concerned, the sales tax is levied with seeming abandon.

One is, indeed, tremendously impressed as he travels about our grand and glorious country by the ingenuity of our politicians in levying taxes. The new ways they have found, their cunningness, once again emphasizes the initiative of our people. They utterly refute the old adage that you can't get blood out of a turnip. Our politicians have found ways to do so. They seemingly have made as great strides as our chemists have made in the development of the plastics. The development of rayon is no more remarkable an achievement than the way in which the politicians have come to bite off your dollar.

You find a certain refinement about some of them such as the woman uses in the decorating of her home, the way in which she arranges soft glows in the living and dining room; a certain softness of view as you find in the more elegant cocktail rooms. These higher natured tax collectors have devised little metallic and celluloid chips of various hues — the pale bluish ones of Washington State are downright appealing, make you want to collect more of them.

But in California, apparently with a hold-over ruggedness of its pioneer days, they pay no attention to little chips. Their sales tax is levied in nickles and pennies on the smallest objects.

We have advanced mightily against the old prejudice on sales taxes. Years ago they were suggested in lieu of higher income taxes and such a howl was raised by our bleeding heart politicians that the suggestion got nowhere at all. But now that we can have the sales taxes and the high income taxes together apparently it is all right.

I imagine that when the State Governors meet every year in convention they pay some sort of homage to a fellow named O'Connor who was Governor of Mississippi several years ago. Because it was he who broke the ice on sales taxes. He was described by the editors as a mighty courageous man at the time.

The way in which our State officials are levying them now should be described as audacious.

The officials of Washington have shown their tax levying ability in many other ways than the sales tax. Both this state and Oregon have a monopoly on the sale of whiskey, and both States get a handsome take from the sale of permits which everyone must have before he can buy so much as a pint. With the thousands of tourists pouring into the two States, some of them for only a day or two, it can be appreciated what a nice racket has been developed.

But in Washington, in addition to this tax there is a mark up of about 60% on the cost of whiskey. A bottle of bonded bourbon, for example, costs around $10 as compared with a price of $5.50 charged by private dealers in the East.

You can't help but wonder what a State does with all this money—from the sale of whiskey, from sales taxes, from the sale of electric power. One explanation is, of course, that the West Coast is a haven for people seeking to live without working.

Chicago Transit Bond Issue All Sold

The selling syndicate headed by Harris, Hall & Co. (Inc.), The First Boston Corp. and Blyth & Co., Inc., announced yesterday (Aug. 27) that the entire $105,000,000 issue of Chicago Transit Authority bonds had been sold.

The surprise completion of the conditional underwriting was well in advance of the Sept. 12 deadline for selling $84,000,000 of the issue. The underwriters had agreed to take the entire issue after the minimum mark was reached.

J. Heyward Silcox Forms Company

Special to THE FINANCIAL CHRONICLE

CHARLESTON, S. C.—J. Heyward Silcox has formed J. Heyward Silcox & Co. with offices at 36 Broad Street to engage in the securities business. He was previously a partner in Silcox & Townsend.

Ruhr Coal and European Recovery

By M. S. SZYMCZAK*

Board of Governors, Federal Reserve System

Pointing out main bottleneck of European rehabilitation is coal scarcity, Federal Reserve official asserts German coal is essential to surrounding countries, and thus European economic recovery is based on increased Ruhr coal production. Sees difficulty in restoring managerial efficiency in mines, but doubts socialization, as advocated by British, will result and looks for compromise arrangement.

When I came back from Germany, about 3½ months ago, I felt that the American public needed to be more fully informed of the crucial role to be played by the German economy in the reconstruction of Europe. In the meantime, the German question has become the center of attention. At present, Anglo-American discussions are taking place on the subject of German coal mining, and another conference, with the participation of French delegates, is going to tackle the over-all problem of the level of German industry. Thus the need for emphasizing the urgency of these subjects has lessened, but it still may be helpful to point out the essential questions involved in those discussions.

M. S. Szymczak

The main bottleneck of European rehabilitation is the scarcity of coal, caused mainly by the decline in British and German coal production. In the Ruhr, where the most important German coal mines are located, daily output averaged some 430,000 metric tons before the war. In 1946, it stayed at less than 200,000 tons until late in the fall when an increase in food rations for miners raised it gradually to 238,000 tons in March 1947. Unfortunately, at that time growing unrest appeared in the Ruhr. The food situation deteriorated because of the unprecedented severity of the winter of 1946-47 that hampered transportation and production in all of Europe, and the uncertainties of international political developments made the outlook even more gloomy. Output dropped to an average of 212,000 tons. Only in recent weeks did production again approach the March figures, after the food situation had improved because of increased imports from the U. S. and after added incentives in the form of other consumer goods had been promised to the miners.

What did the drop in coal output mean to Germany? The four occupying powers in the level-of-industry plan adopted in the spring of 1946, agreed that German steel production, which is the basis of Germany's heavy industry, was to be limited to 5.8 million metric tons annually, a figure corresponding to the depression level of 1932. Actually because of the lack of coal the Ruhr district, to which the great bulk of total German steel production was allocated, did not even produce half of the permitted amount. As the result of the lack of steel, heavy industrial production in the combined US-UK zones of Germany also has remained well below the limits of the level-of-industry plan. Moreover, the production of building materials (cement) urgently needed for rebuilding the shattered German cities, and of textiles (artificial fibers) also was decisively affected by the lack of coal. Total industrial production in the combined US-UK zones stood at 39% of 1936 in May and June 1947, the best months of the period of occupation, as against a planned level of 55-60%. In the field of agriculture, domestic production has declined to about 60% of prewar. This decline is due largely to the lack of artificial fertilizer, and this in turn to the lack of coal.

The scarcity of consumer goods leads to a vicious circle; the miners won't produce more coal if they don't receive more food, better housing facilities, more clothing, and other consumer goods. In order to improve food production, housing conditions and the supply of other consumer goods, however, more coal must be mined.

German Coal Essential to Other Countries

We might say that this dilemma is the consequence of German aggression, and that it is historic justice that the German people suffer. But what are the consequences for the victims of German aggression? German coal always has been essential for the industries of most Central and Western European nations. The Ruhr alone used to export more than 30 million tons of coal per year. In 1946, for reasons of justice and diplomacy we forced the export of coal at the expense of German consumption. Even so, we were unable to export more than 11 million tons—less than one-third of prewar. And this smaller quantity had to be sufficient for countries which suffered from a decline in their own coal production and in British coal exports. Thus the lack of coal also prevented the French, Belgian, Netherlands, Italian, and Austrian industries from utilizing their full productive capacities. In the winter of 1946-47, the catastrophic situation of the German economy compelled us to curtail coal exports far below the level reached in previous months so that in February, 1947, exports dropped below half of the 1496 average, and in the first five months of 1497 had reached an annual rate of only 8 million tons, less than one-fourth of the prewar level. This decline in Ruhr coal exports was one of the most important reasons for the deterioration in the European economic situation in the spring of 1947.

The drop in coal exports is not the only adverse effect of the lag in German coal production. Equally disastrous for Europe is the lack of exports of German in-

(Continued on page 30)

*An address by Mr. Szymczak before the Rotary Club, Washington, D. C., Aug. 20, 1947. Mr. Szymczak recently returned from Germany where he served as Director of Economics Division in the American Military Government.

Public Utility Securities

United Light & Railways

United Light & Power was dissolved after the U. S. Supreme Court approved the SEC plan. Since that time, little progress has been made with the integration program of the United Light & Railways system. Continental Gas & Electrical disposed of Columbus & Southern Ohio Electric and used the proceeds to reduce its senior securities, which now consist of only about $9,000,000 bank debt.

For several years American Light & Traction, the other subholding company, has been trying to obtain SEC approval for the financing of an $80,000,000 natural gas pipeline system which would supply the gas (now obtained through Panhandle Eastern Pipe Line) for its big subsidiary, Michigan Consolidated Gas and also for Milwaukee Gas Light. To finance the equity interest in this company (estimated at $17,000,000, but possibly much larger) American has about $9,000,000 cash and about $30,000,000 worth of Detroit Edison stock, held as an investment. These resources would be ample both to pay off its own preferred stock and finance the pipeline. But the preferred is noncallable and there has been a long fight with an important holder, Allied Chemical & Dye, over the price to be paid in retirement. Allied demanded $40 per share, the company wanted to pay only $25 (the par value) and the SEC compromised by suggesting $33. The company apparently is now willing to pay the latter figure, if Allied Chemical will accept it.

United Light filed a new plan a few weeks ago and a holder of 10,000 shares of common stock has also filed a plan. Allied Chemical tried to prevent consideration of the official plan but without success, and hearings are currently being held. The plan would permit Amercian Light & Traction to continue in existence. Cash would be conserved by paying American dividends with Detroit Edison shares, and United Light dividends with American shares. The plan is a little vague as to timing, but after the new pipeline has been completed American Light would eventually be separated from the parent company, through sale or distribution. This would leave United Light in control of the electric portion of the system, consisting of its own medium-sized operating subsidiary, Iowa-Illinois Gas & Electric, and the subsidiaries of Continental Gas & Electric — Kansas City Power & Light, Iowa Power & Light and several smaller electric companies. United would eventually retire its $25,000,000 bank debt, and the $18,900,000 high-dividend-rate preferred stocks would doubtless be refunded or retired.

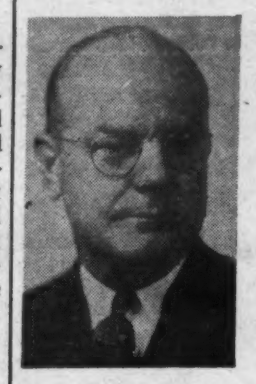
The Fierman plan would simplify the picture somewhat by combining the three holding companies (United, American and Continental). Each publicly-held share of American Light & Traction would receive 8/10 share of United Light and the dividend rate on the latter (now $1) would be raised to $1.50, the share income thus being equalized to the $1.20 rate long paid on American Light.

The SEC staff has not yet indicated its findings on either plan (the official plan has the right-of-way at present hearings). The major question at stake seems to be whether United can remain in control of both the gas and electric systems until the pipe line is completed. The major difficulty is that American is rich in assets and borrowing power, while United Light has a rather top-heavy structure. One step which seemingly should be taken as soon as possible is to retire the 7%, 6.36% and 6% preferred stocks of United Light. This could probably be worked out through application of present net current assets of the top company together with some $6,000,000 cash to be realized from retirement of American Light preferred (of which it holds some 202,000 shares) together with a slight increase in the $25,000,000 bank loan. Continental Gas should also be able to retire its bank loan from cash on hand perhaps during the coming year, which would permit merger with the top company and strengthen the overall position. Clarification of the financial picture would seem advisable if United is to retain control of American and supervise the latter's big venture into the pipeline field. Otherwise, it would seem more logical for United to dispose of its investment in American entirely, possibly by an exchange offer of American common stock to the holders of its preferred stocks.

Denies Revision of Loan Agreement

Secretary Snyder says only temporary and partial suspension of sterling convertibility was made at recent conference with British representatives.

At a news conference on August 27, Secretary of the Treasury John W. Snyder denied that any revision has been made in the Anglo-American Loan Agreement, other than a temporary suspension of a provision in the sterling convertibility requirement. Mr. Snyder asserted this change was made to permit a breathing spell and said that the British had promised to restore full payments in dollars as quickly as possible. He added that he expects the British to initiate renewal of the talks sometime after September 19. When the British representatives left for London to talk over the meetings held in Washington, there was a general understanding for discussions later should the British request them. Mr. Snyder said the head of the British mission, Sir Wilfrid Eady, told him "positively no" when asked whether the British contemplated a revision of the agreement clause prohibiting trade discrimination against the United States. "I think the British situation is serious, but I have great confidence in the energy with which the British usually approach their problems and I feel they will find a solution to the present one," Sec. Snyder commented in reply to a question.



John W. Snyder

Seek Changes in Securities Acts and SEC Rules

American Society of Corporate Secretaries advises members of suggested revisions.

Reed Hartel, Secretary of National Dairy Products Corporation, and President of the American Society of Corporate Secretaries, Inc., has addressed a letter to all members of the Society calling their attention to various changes that this organization intends to propose in the Securities Acts and the Rules and Regulations of the SEC. In this connection, he points out that at the invitation of the SEC, a Special Committee of the Society composed of John H. Mathis, Chairman, who is Secretary of the Lone Star Cement Corporation; B. H. E. Gill, Secretary-Treasurer of Deere & Company; A. D. Marshall, Assistant Secretary of General Electric Company; Irving Reynolds, Vice President of The Chase National Bank, and J. Taney Willcox, Secretary of The Pennsylvania Railroad Company, has already held a conference with some of the Commissioners and members of the SEC staff which resulted in an interchange of views regarding these proposed modifications.

Members of the Society, which includes secretaries of the larger corporations of the United States and Canada, are asked to comment on these proposals and make any additional recommendations believed necessary.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Fire Insurance Stocks — Circular discussing depressed values in a rapidly expanding industry —Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

New Jersey Municipalities — Analysis of revised debt statements of over 275 New Jersey municipalities—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Portfolio for the Professional Man—Tabulation of a suggested $15,000 portfolio of common stocks —Newburger, Loeb & Co., 15 Broad Street, New York 5, N. Y.

Also available is an analysis of **Commonwealth & Southern Corporation.**

* * *

Arden Farms Co.—Memorandum —New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Artkraft Manufacturing Corp.—Descriptive and illustrated brochure—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Bird & Son Co.—Memorandum —Buckley Bros., 1420 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on **Eastern Corporation** and **Southern Production Co.**

Celanese Corporation of America — analytical memorandum — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Chicago Transit Authority Revenue Bonds — Discussion — Estabrook & Co., 15 State Street, Boston, Mass.

Christiana Securities Company —Analysis—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

C. I. T. Financial Corporation—Analysis—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Colonial Mills—Memorandum—Edward A. Purcell & Co., 50 Broadway, New York 4, N. Y.

Continental Casualty Company —Report—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

Also available is a detailed report on **National Union Fire Insurance Company.**

Deere & Company—Study—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also available is a memorandum on **Speculative Suggestions Among Leveraged Rail Issues.**

Diebold Incorporated — Recent bulletin—Giving earnings for first six months and indicating annual return on basis of shipments—Ward & Company, 120 Broadway, New York 5, N. Y.

Fairbanks Co.—Circular—Ward & Co., 120 Broadway, New York 5, N. Y.

Also available are memoranda on **Taylor Wharton Iron & Steel; Purolator Products; Upson Corp.; United Artists; Vacuum Concrete; Fleetwood Air Flow; Lanova Corp.; Lawrence Portland Cement; Sterling Motors; Diebold; Lamson & Sessions Co.**

Giddings & Lewis Machine Tool Company — Memorandum—Hornblower & Weeks, 40 Wall Street, New York 5, N. Y.

Graham-Paige Motors Corp.—Analysis—Seligman, Lubetkin & Co., 41 Broad Street, New York 4, New York.

Also available are analyses of **Osgood Company "B," Wellman Engineering Co., Tennessee Products & Chemical.**

John Irving Shoe Corporation—Analysis—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

Also available are analysis of **National Alfalfa Dehydrating & Milling Company** and **Puget Sound Power & Light Company.**

Lipe Rollway Corporation—Descriptive brochure — Morris T. Sitkoff, 40 Exchange Place, New York 5, N. Y.

Mullins Manufacturing Corporation—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

National Terminal Corp.—Memorandum for dealers only—Adams & Co., 105 West Adams Street, Chicago 3, Ill.

New Haven Allocations Revised —Memorandum on reorganization plans—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a circular on the **Railroad Developments of the Week.**

Prentiss-Wabers Products Co.—Analysis—Adams & Co., 231 South La Salle Street, Chicago 4, Illinois.

Public National Bank & Trust Co.—Analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Also available are analyses on **Stern & Stern Textile, Inc.,** and **Rome Cable Corp.**

Southwestern Public Service Company — Memorandum — J. G. White & Company, Inc., 37 Wall Street, New York 5, N. Y.

Trane Co.—analysis—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Utica & Mohawk Cotton Mills, Inc. — Circular — **Mohawk Valley Investing Co., Inc., 238 Genesee Street, Utica 2, N. Y.**

Woodall Industries, Inc.—Circular — Charles Plohn, 30 Broad Street, New York 4, N. Y.

With Herrick, Waddell & Co., Inc.

Special to THE FINANCIAL CHRONICLE

ST. LOUIS, MO.—Charles A. Herrod has been added to the staff of Herrick, Waddell & Co., Inc., 418 Locust Street.

Louis C. Rogers Co. Adds

Special to THE FINANCIAL CHRONICLE

CHARLOTTE, N. C. — William H. Lockhart, Jr., is now with Louis C. Rogers & Co., Johnston Building.

COMING EVENTS

In Investment Field

Sept. 19, 1947 (Chicago, Ill.)
Municipal Bond Club of Chicago Outing at Knollwood Country Club.

Sept. 19, 1947 (St. Paul, Minn.)
Twin City Bond Traders Club Annual Golf Party at the Southview Country Club.

Nov. 30-Dec. 5, 1947 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

U. S. Task in Promoting World Peace

By W. AVERELL HARRIMAN*
Secretary of Commerce

Secretary Harriman reviews economic and political developments in Europe and Asia since World War I and notes, that although the old imperialism has declined, a new and more threatening imperialism—the Police State—must be dealt with. Says task of U. S. is to assume leadership in upholding democratic concept of government and to afford support to democratic nations. Holds Russian vetoes should not block our pledge to maintain world peace, and lauds Marshall Plan.

The first World War, with its vast destruction of life and property, vitally affected the development of what we call western civilization. In the period up to 1914 men, ideas and goods were moving freely about the earth largely unhampered by passports, immigration restrictions and exchange regulations. The age was far from perfect but there had been enlightened progress in the direction toward which man by a zigzag course had been struggling ever since the Renaissance to attain greater individual freedom and a better and more secure physical existence.


W. Averell Harriman

The years following the first World War were literally a period of crashing empires and breaking of nations. The great czarist empire of Russia, occupying a sixth of the surface of the globe, fell and there arose in its place the revolutionary Union of Soviet Socialist Republics. The Austro-Hungarian Empire was dismembered. New states came into being, such as Poland, Czechoslovakia, Yugoslavia, Finland, Estonia, Latvia and Lithuania.

Germany's attempt to establish a democracy failed to give economic stability, and Hitler seized power. The Italians to escape their misery turned to Mussolini. The Ottoman Empire lost its hold on the peoples of Iraq, Palestine, Syria and Lebanon. Japan emerged from the war richer and thirsting for more spoils of victory. China's attempt to establish order under a republic failed from forces both within and without. Among the colonial peoples the urge for independence began to take form.

In that first post-war world there were tremendous changes in political systems and governments. There were such shiftings of people, boundaries and trade as had never before been known in so brief a period. Despite all the struggles to regain the losses of the war little progress was made. Then the world, as now looking to the United States, saw that it had emerged from the war relatively unscathed and stronger than any other nation on earth. But we were so engaged in our own problems of expansion and readjustment that we paid little attention to what was going on elsewhere.

Important Factors in Future

The aftermath of the first World War was marked by three factors of transcendent importance to the future of mankind.

First, the enormous damage done to the manpower and economies of Britain and France, the two great democracies of the west who had supported a large part of the structure of the world; second, the rise of the Union of Soviet Socialist Republics, its system totalitarian Communism, and its concept of worldwide revolutionary Marxism; third, the acceleration of the desires of colonial peoples to gain their freedom.

As for the French, prior to 1914 they were in some ways the richest people per capita on earth. The human and material devastations of the war, however, seriously reduced their wealth and vigor. France had not recovered from the effects of that conflict when she was thrown into the even more destructive second World War. Britain, too, had lost so heavily in her domestic and overseas strength that when Hitler planned his conquest of Europe he thought that Britain would not fight. Fortunately for us and the world, how wrong he was.

The period following the first World War saw varying degrees of unrest, chaos and revolution throughout a large part of the earth. But it was in Russia where a group of the most aggressive revolutionists of all time seized power and by their programs have profoundly altered the course of human events. No one can foretell its ultimate end. Yet there is no doubt it will affect us throughout our lives and beyond. It is the great issue of our times. It exercises so powerful an influence that it has split the world roughly into two groups. At the risk of great oversimplification I should say that in one group are those who believe in or aspire to a Bill of Rights with all of its human implications. In the other are those who neither believe in nor aspire to a Bill of Rights.

The second World War was man's first real World War. All continents were involved. The losses of the war in men and property stagger the imagination. The effect upon the economies of most of the world has been shattering. This war—like the first World War, but to an infinitely greater degree—has been followed by unrest, chaos and revolution, varying in degree and intensity from country to country. Colonial peoples, for centuries under the tutelage or domination of western powers, are being given their freedom. We ourselves have freed the Philippines. India, Burma and Ceylon are becoming free dominions within the British Commonwealth of Nations.

But a new and more threatening imperialism—that of the police state—has come into the world. This imperialism has submerged not colonial peoples but nearly all of those who live in eastern Europe, and it threatens to engulf western Europe.

Divergent Concepts of Human Organization

Now I want to repeat that there exist today two widely divergent concepts of human organization—one that has or aspires to a bill of rights, and one that neither has nor aspires to it. Expressing it another way, there is one concept where governments are established to serve the individual, and the other where the individual must serve the state. The first is the concept that the people are to be trusted and on them, after free and open discussion, must rest the ultimate decisions. Governments must respond to their wishes. The other concept fundamentally distrusts the people as an ignorant mass. It is the few who have seized power who know best; the people through force and controlled education must conform. Information is rationed to support the infallibility of those in power, however adverse to the real interests of the people their decisions may be. Let there be no misunderstanding of the fundamental nature of these two basic concepts of human organization. We as a people have learned that wherever there is free decision by the people in any country we have friends. We have learned that wherever there's dictatorship, whether it be under the guise of communism or fascism, there is a threat to the security and progress of free men.

The seizure of power can come by the use of military force but more insidiously through the use of a new weapon—that of infiltration by seductive propaganda and false promises. We must recognize that this has had a measure of success in all countries, including our own. Citizens in every country, some of them well-intentioned people, have become, consciously or unwittingly, the agents of a foreign power against their own country.

The United States now finds itself overwhelmingly the strongest power to meet this threat to free institutions. It would be a pleasanter outlook for us if we could close our eyes to the destiny that has made us the standard-bearer of freedom. Fortunately, we have learned that we cannot again turn our backs to the world; that we must for the preservation of ourselves and our own way of life do our full part in re-establishing economic and political order. We understand that we must help other free peoples to help themselves to preserve their free institutions. We also should not lose sight of the great and profitable opportunities we have to help the backward peoples through financial and technical aid to raise their production essential for the development of free institutions.

Task of U. S.

In undertaking this great task I feel that we should have in mind four principal factors. First and foremost, we must preserve and strengthen our own life in this country. Our American system is far from perfect. It is, however, our virtue and our strength that we are constantly searching for its imperfections even though our political parties do not always agree on what they are and how to remedy them. Nonetheless, we are ready to face the need for change and through the decades make salutary advances. We have afforded greater happiness and prosperity than men have ever known. Of first importance is the preservation of our liberties and second is the expansion of our productivity. The

(Continued on page 37)

*An address by Secretary Harriman before the Pacific Northwest Trade Association and the Seattle Chamber of Commerce, Seattle, Wash., Aug. 18, 1947.

Reports More Rapid Home Building

U. S. Savings and Loan League holds it is one of the most hopeful signs in building picture.

Most of the homes for which ground is being broken this month can be planned as the scene of Christmas house-warmings. This prospect for more rapid completion of homes than has been the post-war pace is read by the Home Building and Home Owning Committee of the United States Savings and Loan League in statistics from the home building front indicating a trend back to the three-to-five period for completion of homes.


Col. Ralph M. Smith

Col. Ralph M. Smith, West Somerville, Massachusetts, chairman of the committee, cites the fact that more than 2½ times as many homes were completed in the first seven months of this year as during the same 1946 period. He said that the experience of the savings and loan associations and co-operative banks, which are now placing 22.2% of their loans for construction of new homes, is bearing out the good news of the approach to normal in the time required for building homes.

"The Bureau of Labor Statistics counts 428,700 completed new places to live as the fruit of the January-July building period," said Col. Smith. "The carry-over from 1946 was 275,000 to 300,000 incompleted houses. When we subtract these from the 428,000, we realize that somewhere between 130,000 and 155,000 units started the early months of this year have been readied for occupancy by July. This would have to include some started as late as March and April since the first two months of this year accounted for only 84,000 new starts.

"This is one of the most hopeful signs we can discern in the building picture. Not only did the delays in completing home during the first year and a half after the war contribute to the cost of homes, but they also meant that progress was slowed down in overcoming the shortage.

"Experience of the savings and loan and co-operative bank managers, whose institutions furnished approximately $386,165,000 for new home construction the first half of the year—an increase of 42% over new construction loan volume for the first half of 1946—is in line with the statistical analysis of new homes begun and completed. Many of these managers tell us that homes can be completed in their localities today in about the same time required for that process in 1940. Of course the situation varies with localities, some having made more progress than others in combatting the delays, but we are definitely on our way to the old timing in the building of homes, and probably will soon surpass it in the speed with which both conventionally built and manufactured homes are made ready for living. The war-developed techniques can be utilized in many way."

Reports 0.5% Rise in Consumers Price Index

National Industrial Conference Board finds purchasing power of dollar at mid-year dropped 12.7 cents compared with year previous. Variation not uniform in all localities.

The consumers' price index for June, 1947, rose 0.5% above that for March, 1947, according to figures just released by the National Industrial Conference Board. The index for June 1947 stood at 125.4. Previous highs recorded were in June 1920 (123.1) and March 1947 (124.8 revised). Base date of the series is 1923 as 100.

Over the previous year (June 1946-June 1947) the weighted average of all items in the index climbed 15.9%.

Expressed in 1923 dollars, the purchasing power of the dollar stood at 79.7 cents in June 1947. This represents a drop of 0.4 cents from March 1947 and a drop of 12.7 cents from June 1946.

City-by-City Changes

In 21 of the 66 cities included in the survey, the index was unchanged or lower. The cities which showed the greatest decline are: Macon, Ga. (down 2.0%); Birmingham, Ala. (down 1.7%); Chattanooga, Tenn. (down 1.6%); and Dallas, Texas (down 1.3%). Cities showing the greatest increase are: Erie, Pa. (up 4.2%); New Orleans, La. (up 3.5%); and New Haven, Conn. (up 3.3%). The index remained unchanged in Cincinnati, Ohio, and Lansing, Mich.

Changes by Index Component

During the second quarter of 1947, sundries showed the greatest increase, up 0.9%. During the same period, clothing was down 0.9, which is the greatest decline noted among the major components of the index. During the second quarter, fuel and light was down 0.3%.

Food, which was up 0.7% from March 1947 to June 1947, rose 31.9% during the 12 months (June 1946-June 1947).

Over the year (June 1946-June 1947) the following changes were noted: clothing, up 11.2%; fuel and light, up 3.9%; and sundries, up 8.9%. Housing remained unchanged.

With McDaniel Lewis Co.

Special to THE FINANCIAL CHRONICLE

GREENSBORO, N. C. — Corrie V. Holt, Jr., is with McDaniel Lewis & Co., Jefferson Building.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Insurance Stocks

Total premium volume of all stock and mutual fire and marine insurance companies reached the unprecedented figure of $1,980,109,000 in 1946, according to figures tabulated in "The Spectator Insurance Year Book." If the volume written by Lloyds and Reciprocal Underwriters is included, the annual total exceeded $2 billion, viz.; $2,042,435,000.

The accompanying tabulation shows the year-by-year aggregate volume written by stock companies and mutual companies, respectively, from 1926 to 1946 inclusive.

	—Premium Receipts—			—Per Cent of Total—	
	Stock Companies	Mutual Companies	Total	Stock	Mutual
		—($000)—			
1926	988,334	122,561	1,110,895	89.0%	11.0%
1927	980,105	128,330	1,108,435	88.4	11.6
1928	990,605	141,351	1,131,956	87.5	12.5
1929	1,027,028	152,604	1,179,632	87.1	12.9
1930	918,039	153,495	1,071,534	85.7	14.3
1931	787,019	142,233	929,252	84.7	15.3
1932	680,521	97,391	777,912	87.5	12.5
1933	622,277	112,190	734,467	84.7	15.3
1934	672,437	130,433	802,870	83.8	16.2
1935	702,620	134,415	837,035	83.9	16.1
1936	759,429	131,426	890,855	85.2	14.8
1937	831,622	140,506	972,128	85.5	14.5
1938	782,204	139,469	921,673	84.9	15.1
1939	814,514	142,128	956,642	85.1	14.9
1940	932,074	156,298	1,088,372	85.6	14.4
1941	1,075,617	183,206	1,258,823	85.4	14.6
1942	1,144,461	199,826	1,344,287	85.1	14.9
1943	1,074,725	212,042	1,286,767	83.5	16.5
1944	1,154,056	217,764	1,371,820	84.2	15.8
1945	1,252,253	251,769	1,504,022	83.3	16.7
1946	1,658,308	321,801	1,980,109	83.7	16.3
Totals	19,848,248	3,411,238	*23,259,486	85.4%	14.6%

*Average.

The average proportion written by the mutuals over this 21-year period is 14.6%, and by the stock companies, 85.4%. The mutuals' share of the total business has gradually increased from 11% in 1926 to around 16% in recent years. In 1946 their share was 16.3% compared with 16.7% in 1945.

The business of the mutuals is more restricted and selected than is that of the stock companies, who serve the public more widely. In consequence, the underwriting experience of the former is generally more profitable. For example: In 1946, total losses paid by the stock companies aggregated $731,337,992, which represented 44.1% of premium receipts for the year; losses paid by the mutuals totaled $131,683,291 or 40.9% of premium receipts. In recent years the respective ratios have been as follows:

Ratio of Losses Paid to Premium Receipts
(Based on annual aggregate figures)

Year—	Stock Companies	Mutual Companies
1937	42.8%	34.6%
1938	48.3	37.7
1939	45.0	38.1
1940	43.5	37.6
1941	43.8	38.4
1942	55.0	36.4
1943	47.2	33.1
1944	48.1	37.7
1945	50.0	34.1
1946	44.1	40.9
10-yr. aver.	46.8%	36.9%

Comparatively, Lloyds and the Reciprocals suffered the heaviest losses of the three groups in 1946. Their losses aggregated $33,132,032 against premium receipts of $62,325,982, which gives a ratio of 53%.

Mutual companies favor bonds in their investment portfolios to a greater extent than do the stock companies. Their respective allocations of aggregate admitted and invested assets on Dec. 31, 1946, as reported by "The Spectator," compare as follows:

PERCENT ALLOCATION OF TOTAL ADMITTED ASSETS, DEC. 31, 1946

Item—	364 Stock Companies	160 Mutual Companies
Cash	10.2%	12.2%
Agents' balances	5.0	4.2
Miscell. assets	1.7	1.3
Real est. & mtges.	1.8	4.2
U. S. G. Bonds	33.0	50.1
All bonds	40.3	63.5
All stocks	41.0	14.6
Total	100.0%	100.0%
Total adm. assets	$3,887,057,566	$602,400,024

Total investment income of the stock companies in 1946 was $110,336,000, equivalent to a return of approximately 3.4% on invested assets at the year-end; this compares with $14,041,000 for the mutuals and a return of approximately 2.8%.

Percentwise, the volume of annual business written by the mutuals has expanded 162.6% from their small 11% share of total business written in 1926, while that of the stock companies has risen by only 67.8%. Dollarwise, however, the mutual's annual business has increased by less than $200 million while that of the stock companies has increased by $670 million. The combined increase of the two groups over 1926 is approximately $870,000,000 or 78.5%.

Investors in sound fire insurance stocks have nothing to fear from the competition of the mutuals.

Market in Delicate Balance

By G. Y. BILLARD
Partner, J. R. Williston & Co.

Stock market analyst reviews market situation and contends market is in rather strong than weak technical condition. Points out leading investment trusts are purchasing common stocks, and proposed large increase in capitalization of American Telephone and Telegraph Co. does not reflect a defeatist attitude of big investors. Holds any sharp decline in exports will be offset by resurged domestic demand.

The present stalemate in the stock market represents a delicate balance, which usually characterizes pre-Labor Day markets. Barring important news of a nature to influence investment sentiment, continuing narrow price movements would seem in nearby prospect. Further observation which could be made is that the market appears to be in a position to respond more vigorously to favorable than to unfavorable news. This is merely another way of saying that the stock market is in a relatively strong rather than weak technical position. In our opinion, higher prices for selected equities, particularly those qualifying for investment purposes, are in prospect whenever the international outlook clarifies.

Gordon Y. Billard

Fears

Most recent comparable period to the present, when there was flagrant subnormal capitalization of earnings power, was in the period immediately preceding World War II. What has happened since then is history and is only of interest in that it affords some background for appraising the present situation.

Current and prospective earnings power has hardly ever been more conservatively capitalized—and earnings never more conservatively stated. As a point of illustration, note the Goodrich report released during the past week showing earnings for the six months period ended June 30 of $7.82 on the common stock, after setting aside contingency reserves equal to about $1.53 a share of common, or almost as much as the amount paid in dividends to stockholders for the period. Moreover the longer-term fundamental relationship between stock and bond yields has never been more distorted. Explanation lies to a very large extent in fears concerning ultimate repercussions on the domestic economy from the failure to bring recovery in Western Europe. Recognition that the framework has been set for early solution of this major problem, plus some measure of confidence of relative stability in the purely domestic outlook, is the cornerstone for a constructive view toward the stock market.

Big Investors

The present attitude of "Big Investors" may be seen by observing the policies pursued by those charged with the serious business of investing sizable public funds entrusted to the management-type investment trust. The administration of such funds is not conducted in any haphazard fashion but rather deliberately and with reasoned consideration.

Here is a outstanding management-type investment trust which as of June 30, 1947, had less than 3% of its funds in cash, about 11% in U. S. Government bonds and the balance mainly in a diversified list of common stocks. Another large management-type investment trust had 2% of its funds in cash, 2% in U. S. Government bonds and most of the balance in common stocks. And here is another large trust with 9% in cash, about 16% in U. S. Government bonds and most of the remainder in equities. The managements of these three trusts are not interrelated. They are representative of independent important banking groups controlling nearly $200 million of stockholders' funds. This hardly can be construed as a defeatist attitude toward common stocks, which characterizes a very large segment of the investing public. Despite the SEC and its noble objectives in attempting to iron out price fluctuations through rules and regulations designed to restrict the market to a purely investment affair, investors today as a class are more gun shy than ever. The truth probably is that the public is not so bearish as it is just plain scared—and for obvious reasons.

Export Trade

Principal bugaboo raised concerning the domestic business outlook is the fear of the effect of sudden collapse of export trade upon the domestic economy. That the volume of business transacted for foreign account is abnormally high and will eventually decline is undeniable. Just when and by how much foreign trade will decline is beyond the realm of prediction. Much depends upon the action of Congress in implementing the Marshall Plan and the policies of the World Bank. However, on this score it is pertinent to observe that the Director of the Bureau of Labor Statistics of the U. S. Department of Labor stated during the past week that even if exports dropped "drastically," there would still be a resurgent domestic demand to fill the gap. Furthermore, when asked what happened to the summer business slump which had been freely predicted in some quarters, the reply was "It has been postponed indefinitely." Basic fact not to be overlooked in appraising the business outlook, is that the industrial plants of two of the world's leading industrial nations—Germany and Japan—have been virtually destroyed in the most devastating war in history. The U. S. alone has available resources for world rehabilitation. The shortage of goods is far more acute today than the shortage of dollars. What is needed is more, not less, production of automobiles, electrical, industrial and farm machinery, railway equipment, steel, building, etc.

Big Business

Contrast the defeatist attitude as reflected in the stock market with that of "Big Business."

During the past week came the announcement of the intention of American Telephone to raise an additional $354 million for further plant modernization and expansion. Such financing would represent the largest single piece of corporate financing in history. "Despite the vast expansion of the past two years," the company said, "the Bell System still is faced with a very large construction program to meet the continuing unprecedented demand for telephone service and to improve the service. The new plant will be composed of the best types of facilities that telephone scientists and engineers can devise. This means more dial service to more people, more dialing of toll calls, extension of the coaxial cable and radio relay system with their capacity to carry television programs, extension of mobile telephone service, more telephones on farms and achieving the goal of giving everyone service when and as he wants it." This does not spell for lack of confidence in the future. There is no management more astute than that of American Telephone.

Now consider the estimates collected some time ago by the SEC indicating that American business expects to spend $3,770 million in the current quarter—a new high mark, if attained. This is equal to an annual indicated rate of about $15 billion compared with $12 billion in 1946 and $5 billion in 1939. With the subsequent lifting of building restrictions, even this latest estimate might prove conservative in view of the recent revival of optimism on the part of business executives and the corresponding willingness to proceed with expansion plans despite present high costs.

Rate of capital expenditures is the life blood of a vigorous economy. It is the forerunner of things to come—and is a potential market factor of far greater import than export trade.

R. D. French & Co. Formed

HOUSTON, TEX.—R. D. French is engaging in the investment business under the firm name of R. D. French & Co. from offices in the City National Bank Building. He was previously with Harris, Upham & Co.

Scores President Truman's Budget Statement

Sen. Bridges, Chairman of Senate Appropriations Committee, and Rep. Taber, Chairman of House Appropriations Committee, issue joint statement attacking President for "high spending" and "high taxing."

The following statement was issued jointly on Aug. 21 by Sen. Styles Bridges (R.-N. H.), Chairman of the Senate Appropriations Committee, and Rep. John Taber (R-N. Y.), Chairman of the House Appropriations Committee, in criticism of President Truman's mid-year Budget Statement.

"President Truman's political

Sen. Styles Bridges

John Taber

statement on the Federal Government's fiscal situation must be disturbing to the country. It is designed to perpetuate his spend and spend policy, and to deny to the American people the tax relief they demand and so well deserve; the tax relief they are entitled to on the basis of Mr. Truman's own figures. He again reveals himself as high-spending, high-taxing Harry.

"Confidence in his estimates and statements on fiscal affairs is shattered by his shocking admission that in his budget message to the Congress last January—less than eight months ago—he underestimated Federal revenue by $3,937,000,000. He now predicts that the Treasury on June 30, 1948, barring contingencies, will have a surplus of $4,667,000,000 of which he attributes $2,100,000,000 to increased revenue.

"Obviously, it did not occur to him that when the people repudiated his administration last November and elected a Republican Congress their purpose was to get going, freed of New Deal-Democrat shackles that were strangling free, competitive enterprise. Nor did it occur to him that a sigh of relief went up from the people that they now had a Congress responsive to their will. Production of long-deferred goods, without unnecessary government meddling into their affairs, so essential to the full enjoyment of life is uppermost in the public's mind. That is why employment now is at an all-time high and goods long absent from the market are now appearing in increasing volume. That is why the Federal treasury has a tidy surplus and revenue is mounting tremendously.

"Repeatedly, Republican Congressional leaders, in pressing for relief from the intolerable wartime tax rates, insisted that with the Republican Congress on the job the country could expect solid foundations for prosperity and happiness, and a reversal of New Deal tax squandering. When we Republicans were battling for tax relief there were cries from among the Democrats that the fiscal situation was too cloudy; that we might run into the red if we cut the intolerable wartime tax rates. Now Mr. Truman resorts to more bug-a-boos to deny the people tax relief.

"In this connection, it is significant that his forecast of a treasury surplus of nearly $5,000,000,000 is given to the country only 24 days after adjournment of the first session of the Republican Congress.

"Let us hope and expect that the books of the Treasury Department are being kept as honestly in contrast to Mr. Truman's purely political interpretation of the figures, so that the people can keep tab on the fiscal situation for guidance when the second session of the Congress begins. In his insistence upon continuing in peacetime the back-breaking wartime tax burden, Mr. Truman again under-estimates what the American people can do and what they are doing under the freedom voted by the Congress.

"His treasury surplus estimated for the present fiscal year is too low and he does not take into consideration that the Congress during its next session will continue to hammer for greater efficiency in the administrative branch — efficiency that should save the taxpayers' dollars. Nobody can have faith in Mr. Truman's budget estimates, because they are political estimates, issued from time to time to protect some policy in mind and later to be sprung upon the people. Last year he was so consistently wrong that his various estimates now appear ridiculous. Note the accompanying table.

"His estimated treasury surplus of $4,700,000,000 for the present fiscal year, if he has his way, would all go toward reduction of the national debt, except such funds as he deems necessary for aid to Europe and other parts of the world.

"He talks about public debt retirement as though it would have the effect of arresting inflation. The economic fact is that when the government retires its bonds it pays the holders cash and that cash goes into the banks and into circulation by those who hold the bonds.

"Government bonds are a basis for credit expansion. Everybody with the good interest of our government at heart wants the national debt reduced, because that would further buttress our Government's fiscal situation which is now sound.

"Under the tax reduction bills which the Congress twice passed and which President Truman vetoed there would have been ample surplus in the treasury to cover the tax relief provided and also to apply a substantial amount on the public debt. Mr. Truman belatedly concedes that the treasury surplus will far exceed his original estimate.

"The country knows that Mr. Truman fought the economy efforts of the Congress so recently elected by the people. He said his budget could not be cut and that it must not be cut. But Congress cut it and the squeals of unnecessary bureaucrats who have been dropped from the payroll attest to that fact.

"Running through Mr. Truman's political statement is the custom-

(Continued on page 19)

RECEIPTS AND EXPENDITURES: OFFICIAL ESTIMATES AND ACTUAL EXPERIENCE IN THE FISCAL YEAR 1947

(In Billions of Dollars)

	Original Estimate Jan., 1946	Budget Review of Aug., 1946	Budget Estimate Jan., 1947	Revised Estimate Apr., 1947	Actual
Receipts	$31.5	$39.6	$40.2	$42.5	$43.3
Expenditures	35.1	41.0	42.5	41.3	42.5
Surplus and deficit	—3.6	—1.4	—2.3	+1.2	+ .8

President Releases Mid-Year Budget Estimate

Places receipts for 1948 fiscal year at $41.7 billions and expenditures at $37 billions, with budget surplus at $4.7 billion, instead of only $200 million as estimated in January. Shows net reduction of estimated expenditures by Congress was only one-half billion dollars, and points to possibility of increased outlays for foreign aid. Surplus to be applied to debt reduction.

On Aug. 19, President Harry S. Truman released a revised estimate of the Federal Budget for the fiscal year ended June 30, 1948. According to the figures of the new estimate, the net reduction made by Congress of proposed expenditures by the President in January amounts to scarcely a half billion dollars, but owing to a rise in the estimated revenues, (due in part to the retention by Congress of the war excise taxes), the estimated surplus for the present fiscal year is placed at $4.7 billion, instead of but $200 millions as originally estimated.

President Truman

In releasing the new budget estimates the President issued the following explanatory statement:

In any analysis of the Federal Budget, we must always keep in mind the fact that about three-fourths of our expenditures relate directly to war, the effects of war, or our efforts to prevent a future war. Thus, as finally approved by the Congress, 28% of our expenditures for 1948 are for national defense, 20% for our veterans' service and benefits, 14% for interest on our national debt (which is largely a result of war), and almost 12% to support our international programs and activities for world peace. This leaves 26% for all other Government programs, of which the share of "general Government" is only 4%.

From another point of view, 40% of the civilian employees of the Government are engaged in national defense activities, 10% in the conduct of our veterans' programs, and 22% in the postal service. This leaves only 28% to carry out all other Federal activities.

We cannot disregard these facts if we are to reduce our expenditures intelligently and without crippling those public services to which we are by law committed.

When I transmitted the 1948 Budget to the Congress last January, I said that it was a realistic Budget and as complete as I knew how to make it. I added that in its preparation we had been forced to make drastic reductions in the requests for a number of worthwhile programs because of the urgent need to cut expenditures.

Now after eight months we can look back on many events which were then hidden in the uncertainties of the future, and on new conditions which could not then be anticipated. Nevertheless, the fundamental fiscal policy on which the Budget was based has proved sound. Furthermore, the searching review of the Budget by the Congress and the country must convince everyone willing to look squarely at the facts that it was a tight Budget. It was, in fact, a hard-boiled Budget predicated on an efficient and economical administration of the programs established by the Congress.

The Budget included in detail for the first time all Government corporations and war agencies. This enabled both the Congress and the people to get a better perspective and a clearer understanding of the necessarily complex ramifications of the programs of the Federal Government. These programs are all authorized by the Congress in response to the needs or demands of the various segments of our democracy. They are carried out only so long as the Congress continues its authorization and supports them through appropriations. Hence, it is essential that all citizens and the Congress continuously weigh the need for these services against the costs if we are to strike a just balance between the two.

The actual reduction in expenditures of 528 million dollars for the fiscal year 1948, as indicated in the Budget review, reflects this balancing of needs against costs by the Senators and Representatives in the Congress, as they came to grips with the problem during its session just ended. The indicated surplus of $4.7 billion applied to reducing the national debt, will be an important bulwark against the severe inflationary pressures to which the country is now subjected. The international situation has also made it imperative that we plan for a surplus, both in view of the problem of promoting world recovery and of the need for a reserve against emergencies, whether at home or abroad. Elementary prudence requires that we be prepared to face the unforeseeable as well as the foreseeable. This, we are now in a much stronger financial position to do than we were last year.

The summary portion of the revised budget statement follows:

Continuing the practice of former years, I submit at this time my annual midyear review of the Budget. Since the 1948 Budget has aroused unusual public interest, I am presenting this year a detailed analysis of how the changes in it came about.

The revisions in this statement bring up to date the initial Budget estimates for the fiscal year 1948 which were transmitted to the Congress in January. They take account of Budget amendments submitted to the Congress, the action of the Congress on appropriations and other legislation, and numerous developments which have affected the outlook for Government programs.

Summary: Budget Totals and Major Revisions

The expenditures of the Federal Government during the fis-

(Continued on page 32)

Railroad Securities

The late spring advance in prices for railroad stocks and speculative bonds has lost its momentum and has been followed by a desultory period of backing and filling with the general trend slightly lower. Partly this recent action may be attributed to the usual summer doldrums which have affected all sections of the securities markets. Additionally, there have been two factors particularly affecting the railroads which have apparently contributed to the tendency to postpone new purchases.

June and July earnings have been spotty, and in a number of cases results in those two periods have compared unfavorably with the earnings of the like 1946 periods. Were the results of the last two months to be accepted as indicative of a trend towards declining earnings there might be some valid reason for this hesitant attitude. Most rail analysts, however, consider that the influences affecting June and July results were of a temporary nature. In June, many of the western roads were severely handicapped by floods. Maintenance outlays were inflated by the necessary repair work (probably carrying over in many instances into July) while transportation costs were affected by the necessity for extensive detouring and rerouting.

The June report of Chicago, Burlington & Quincy gives a good picture of what the floods meant to the individual carrier. The June transportation ratio of 41.8% was 4.6 points above a year earlier and almost eight points above the showing for May, 1947. Obviously no one can seriously consider that the June results are indicative of any sharp and sudden turn for the worse in the company's operating status. This, and similar experiences of other roads in the flood area, must be considered merely as a temporary interruption of the earlier 1947 trend towards more efficient operation.

The temporary adverse influences at work in July generally affected a different group of roads than those influenced by the June floods. The early July earnings results indicate sharp year-to-year declines for a number of the Eastern industrial roads. For one thing, there was the coal stoppage in the early days of the month. Secondly, there were a number of important manufacturing plants that closed up for periods ranging from one to two weeks for vacations. More and more plants are finding it more profitable to close up completely for a short period than to scatter vacations and operate at a restricted level for a longer period. For the railroad industry as a whole the loss of traffic due to the coal and industrial stoppages was obscured by the heavy grain movement and large shipments of iron ore down the Lakes, but for the individual roads largely dependent on coal and heavy industrial activity the results were only too plainly evident in July earnings.

Aside from the temporary influences affecting June and July traffic and earnings, it is obvious that rail securities are currently being influenced by the impending wage and rate decisions. The request of the non-operating unions for increased wages is now in arbitration. Both sides have agreed to accept the decision of the arbitration board which will be handed down some time around the middle of next month. There is naturally considerable concern as to the possibility that any increases will again be made retroactive for a considerable period. In the meantime, the hearings are characterized by ominous forecasts by railroad management.

As hearings on the request of the railroads for rate relief do not even start until September 9, any decision will naturally be delayed well beyond the date of decision on the wage increases. Also, if the 1946 experience is to be accepted as any criterion, it may be expected that earnings estimates filed by many of the railroads during the proceedings will make pretty sorry reading. On the other hand, the Commission should not take so long this year as in 1946 to grant the rate relief. Even with a lag of a few months between wage and rate increases the great majority of reasonably sound roads are almost certain to show substantial earnings this year. It is expected that eventually the market will give greater recognition to the good 1947 earnings.

Brooks & Co. Offers Plywood Inc. Deb.

P. W. Brooks & Co., Inc. is offering $500,000 5% sinking fund debentures, with detachable common stock purchase warrants attached, of Plywood Inc. The debentures are priced at 100% plus accrued interest from Aug. 1. The attached warrants will entitle the holders to purchase 100 shares in the case of $1,000 debentures and 50 shares in the case of $500 debentures of the company's common stock at $3 per share on or before July 31, 1948, $4 per share thereafter until July 31, 1949, and $5 per share thereafter until July 31, 1952.

Proceeds of this offering plus proceeds of an offering of 200,000 shares of the company's common stock (par $1) will be used by Plywood Inc., to exercise its option to purchase all of the outstanding stock of Kalpine Plywood Co. The balance of the proceeds will be used for the retirement of bank and mortgage indebtedness of approximately $280,000 and for additional working capital.

Plywood Inc. is engaged in the manufacture and sale of plywood and related items, and is continuing the business formerly conducted by its predecessor corporations and co-partnerships. Approximately 95% of the company's dollar volume business is represented by the sale of plywood, of which approximately 25% is produced by the company's present manufacturing facilities. After acquisition of the Kalpine Plywood Company, approximately 70% of all plywood sold by the company will be produced in its own plants.

Two With Anchor Inv. Co.

Special to THE FINANCIAL CHRONICLE

ST. JOSEPH, MO.—Frank C. Dressman and George H. Gee have become affiliated with Anchor Investment Co., Inc. Mr. Gee was formerly with Atlas Investment Co.

Customers Brokers Ass'n Gets Slate

The slate of Officers and Executive Committee Members of the Association of Customers' Brokers, to be voted upon at its annual election, Sept. 24, has been announced by the Nominating Committee. The nominees are:

N. Leonard Jarvis

President—N. Leonard Jarvis, Hayden, Stone & Co.

Vice-President—Archie F. Harris, Merrill Lynch, Pierce, Fenner & Beane.

Treasurer — Maurice Glinert, Hirsch & Co.

Secretary—Frank P. Rinckhoff, E. F. Hutton & Co.

Members of the Executive Committee (term expires in year indicated):

Walter McKeag, Jr., Merill Lynch, Pierce, Fenner & Beane (1951); Richard M. Ross, Dean Witter & Co. (1951); Anthony Smith, G. H. Walker & Co. (1951); Donald J. Watrous, A. M. Kidder & Co. (1951); Milton Leeds, Pershing & Co. (1948).

Mr. Jarvis, nominee for Presidency of the Association, was President of the Security Analysts 1945-1946. He started as a runner for the New York Stock Exchange twenty-four years ago, and is a graduate of N.Y.U. He is a member of the Economic Club, University Club and Governor of the Wall Street Forum.

Members of the committee which made the nominations are: Anthony Smith, Chairman; John S. MacLean, Secretary, Shearson, Hammill Co.; H. E. Broadfoot, Hayden, Stone & Co.; William Cogswell, Fahnestock & Co.; Arthur J. Hansen, Francis I. du Pont & Co.; Walter E. Hoskins, Eastman Dillon & Co.; Ralph A. Rotnem, Harris, Upham & Co.; Frank A. Saline, James N. Leopold & Co.; John J. Tuffy, Stokes, Hoyt & Co.; Kenneth Ward, Delafield & Delafield.

San Francisco Exch. Permits Incorporation

SAN FRANCISCO, CALIF.—Ronald E. Kaehler, President, San Francisco Stock Exchange, announced August 19, 1947, that a majority of the members of the Exchange had approved the amendments to the Constitution providing for Permissive Incorporation of member firms.

The amendments adopted by the San Francisco Stock Exchange conform closely to those which have been under consideration by the Governors of the New York Stock Exchange.

Mr. Kaehler stated there are no applications for corporate memberships presently before the Board of Governors, but that it is quite likely some may be received from members of the Exchange, and there may be other non-member corporations who may be interested in joining the Exchange under the plan.

Chapman Opens Offices

SAN ANTONIO, TEX.—J. Wilbur Chapman will engage in a securities business from offices at 106 Broadway. He was formerly an associate of the Texas National Corporation.

Why Upset the Apple Cart?

By JOHN ELLIS*

Mr. Ellis points out both wage earners and employers have gained in last half century and are likely to continue to do so unless the applecart is upset. Urges a "stop worrying" attitude over rising prices and higher wages and proposes gradual amortization of national debt, increasing pay of workers in South, a universal currency, uniformity of wages in individual industries and a shortening of hours.

During the last six months or more, an alarmingly large number of men, prominent in the world of finance, industry, banking, and in the educational field, and others who have attained importance as statisticians and analysts, have rendered a serious disservice to business, the country and the world, through their lip-service to the theory that we are headed straight for a depression (pardon, a recession), unless, provided, in case, etc. The fact that it is written in impeccable grammar and flowery rhetoric still does not make it any the more mentally palatable; *vox et praeterea nihil.*

John Ellis

Many distinguished men, through being too young, have been unable to appraise properly the economic revolution that has taken place within the past 50 years; some of the older men seemingly have forgotten what has happened from 1897 to 1947. When quite a percentage of our population, in all walks of life have such a child-like psychology that hardheaded businessmen are compelled, when building skyscrapers costing many millions, to omit the 13th floor, it becomes a serious matter to give voice to any thought that may influence people to fear. As our late lamented (?) President said: "All we have to fear is fear itself." Our dean of financiers, John Pierpont Morgan, said: "Don't sell America short." A broad, logical interpretation of that statement would be that if you can't say something constructive about the United States, don't say anything.

To view-with-alarm may be quite harmless in a discussion among friends, but when these same thoughts are publicized in print, radio or in an address, where many thousands or even millions of people hear or read these dire prophecies, it becomes extremely unfitting if not dangerous. A case in point was a radio skit, when thousands thought the world was coming to an end, by an announcement that broke into the program, which, while part of the play, led thousands to believe that it was an actual news announcement. If this subject were not so terribly serious it could quite properly be titled: "A Dissertation on Worry." But the business world is not interested in abstract philosophy, but must needs deal with realities; however, when psychology and philosophy have a bearing on business and finance the businessman must use them both in coming to decisions that will render his judgment profitable.

A financial journal is hardly the place for a purely academic discussion of philosophy, but when philosophy has an essential bearing in depicting some of the highlights and shadows of the financial picture it may well be introduced to clarify the flow of thought. A first principle of philosophy is that by iteration one can act psychologically on millions. Lit.: "He kept us out of war"; resulting in Wilson's reelection. "I promise you mothers and fathers again and again your sons will not be sent to foreign shores to fight"; leading to Roosevelt's third term. "Heil Hitler!" was the peer of them all. We may cite numberless cases throughout history where a catch phrase caught millions in a snare.

Objective of This Article

The sole objective of this article is to nullify as far as possible the destructive economic viewpoint held by so many. So while seemingly discussing the subject in a "pollyanna" vein, it is but to bring home, simply, to the men of the business world, the history of the past and apply it to the present. Worry is compounded with some dangerous ingredients, some of which make the patients (the individual, the nation and the world) all the more sickly. Half of the worry is foolish and the other half unnecessary. The world will still move in its regular orbit, and will progress and move on to its destiny. The little we can do will little or long delay what is to be.

With dividends for the first quarter of 1947 up 21% over the first quarter of 1946 ("Chronicle," June 12, page 3159), the May sales of a big shoe chain up 54.2% over last year ("Chronicle," June 16, page 3162), the employment figures the highest in the country's history and the market making highs for the year in many issues, all in the face of the Summer doldrums, surely leaves no room for pessimism. So the picture can not be as black as some would paint it.

As the chief source of worry seems to be the relations between capital and labor, let us take this subject first, with something concrete. In the words of one of the country's picturesque politicians, "let's look at the record." Let us follow capital and labor while they make a sort of "Pilgrim Progress" and see who really got hurt in arriving at where we are today.

Up to 1906 a weekly wage of $9 was considered fairly good for the average worker: this was for a 60-hour week. This brings us to the start of this review (1897) of labor relations for the past 50 years. Scales were approximately $12 for a 60-hour week (10-hour day), for the higher paid worker.

The employer came to work about an hour before the men and stayed sometimes two or three hours after the men went home and earned about as much as three men. In 1898 there was agitation for a nine-hour work-day but was settled for 9½ hours generally and in lieu of the additional ½ hour the wages went up to $15 per week, the employer now earning about as much as four men. Then in 1899, a period of prosperity, hours were shortened to nine per day, wages went up to $18 per week. The employer came in about ½ hour before the men and quit about ½ an hour after the men and receiving in earnings about as much

*Editor's Note — Mr. Ellis is an employee in the "Chronicle's" proof reading department, but the views expressed by him are, of course, his own and do not necessarily represent the policy or views of this publication. It is published with the thought that it might be interesting to our readers as showing a layman's viewpoint.

What Solution for the British "Dollar" Crisis?

By PAUL EINZIG

Correspondent reports almost unanimous opinion in Britain of need for suspending sterling convertibility and non-discrimination clauses of Anglo-American Loan Agreement, but little enthusiasm for use of facilities of the International Monetary Fund. Criticizes Dalton policy of "giving away" dollars to Egypt, India and Iraq.

LONDON, ENGLAND—Now that official negotiations for a solution of the British "dollar crisis" are under way there is speculation about the nature of the solution that is likely to be chosen. A certain amount of unsolicited advice is also given in the correspondence columns of the "Press," but not nearly as much as one would expect in such a situation. Opinion was almost unanimous about the need for a suspension of sterling convertibility and the non-discrimination clauses, or at any rate their drastic reinterpretation so as to enable Britain to import from countries which do not insist on payment in dollars. A more controversial question is the suspension of Article 7 concerning sterling area exchange arrangements. The government is also urged to secure American approval for making full use of its facilities with the International Monetary Fund. The idea of another direct American inter-government loan is dismissed as impracticable for the solution of the present crisis, owing to the delay it involves. On the other hand, there is some talk about the possibility of inducing the Federal Reserve authorities or the United States Treasury to accumulate, for the time being, the sterling received in payment from non-sterling countries, which would take advantage of convertibility. There is also some talk about arranging private loans or credits to tide Britain over pending the adoption of the Marshall Plan. Last but not least, the suggestion that some of the British colonies on the Western Hemisphere should be sold to the United States has also been revived.

Dr. Paul Einzig

Many of those in favor of suspending non-discriminatory import arrangements are, curiously enough, opposed to the suspension of the sterling area exchange arrangements. Yet, they ought to know that, if sterling remains convertible, Britain would stand to derive but little benefit from discrimination in trade. Apparently even the government has not realized this elementary truth, judging by the fact that fruit and vegetables are imported from Italy during the season when there are ample home-grown supplies. Food Minister Strachey seems to be unaware that Italy was in a position to convert the sterling proceeds of these exports, so that the amount spent rather uselessly in that direction will necessarily result in additional cuts in vital food imports from the United States a few months hence. But perhaps he cannot be expected to know, seeing that even his learned colleague Chancellor Dalton is unaware of it.

Nobody is very enthusiastic about using the facilities with the International Monetary Fund—for one thing, the interest charged is considered to be practically usurious. In any case, short-term facilities of any sort are not looked upon with much favor, owing to the doubts entertained about the chances of the Marshall Plan with the aid of which they are supposed to be repaid. Little is known on this side whether the United States authorities have the legal power to accumulate sterling balances, but even many of those who consider the idea practicable are against it on the ground that it would merely prolong convertibility at the expense of contracting more short-term debts in the United States, all for the benefit of other countries.

A year or two ago Mr. Wintringham's suggestion in "The Times" to sell out Honduras and British Guiana to the United States would have provoked a wave of indignation in the Clubs where any idea of bartering away any part of the Empire is looked upon as high treason. But meanwhile we have seen Britain abandon the vast Indian Empire, Egypt and Burma, without even receiving dollars in compensation; on the contrary, it is Britain who is paying them heavily through release of wartime sterling balances. Having swallowed several camels, surely the British public should not strain at the gnats! And yet, even those who shrug their shoulders fatalistically when looking at the picture of the Union Jack being hauled down for the last time at the Residency of Lucknow feel uncomfortable at the thought of parting deliberately, as a result of cold bargaining, with any territory under the Crown. Should the government adopt the suggestion, it would have to overcome much sentimentalist opposition, even though it should be obvious to all that at the cost of losing some minor territories the rest of the Empire and the mother-country itself would materially improve its chances of survival.

Meanwhile, Mr. Dalton continues to give away dollars with both hands. Having given away over $200,000,000 just to keep Egypt quiet for six months, he has just signed away another $260,000,000 for the benefit of India between now and the end of this year. The terms of the agreement concluded with Iraq are said to be even more unfavorable, although the amount involved is much smaller. Publication of the Indian and Iraq agreement has been deferred till Parliament was safely away for Summer vacation. Otherwise Mr. Dalton would have had to answer a few awkward questions. By the time Parliament reassembles in October so many things will have happened that the dollars given away in these and other payment agreements will have been forgotten.

There is a growing feeling of uneasiness, resulting from the convertibility crisis, that Britain's financial affairs are handled with gross incompetence. The public is beginning to lose its hitherto implicit faith in the skill of the Treasury. Even the traditional belief in "muddling through eventually" has weakened materially lately. Everybody is asking everybody else what will happen when there will be no more dollars left, and nobody can give the answer.

Joins Hutton Staff

Special to THE FINANCIAL CHRONICLE

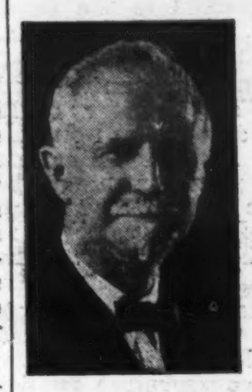
SACRAMENTO, CALIF.—William H. Hopkins has become associated with E. F. Hutton & Co. He was formerly with Dean Witter & Co. in San Francisco.

Labor Conditions

By ROGER W. BABSON

Mr. Babson cites instance in which higher railroad wages brought about less work and increased competition of other carriers. Says remedy is a lower wage system, with bonus as incentive for more work. Scores lack of interest of railroad employees in their companies.

Last night, I spent in Wellesley. Desirous to get to Boston early, I went to the Wellesley Hills railroad station to take the 7:16 a.m. train. This is a very fine stone station of the Boston & Albany (New York Central System) Railroad. To my surprise, I found no ticket agent, no baggage master and no newspapers. The doors were locked and bolted.



Roger Babson

Upon inquiring the reason, I was told later in Boston that, in view of a recent forced raise in wages, the railroad cut down the working hours of the station employees so the railroad did not have to pay out any more money. This, of course, resulted only in enabling the station employees to lie abed a little longer in the morning.

The station did not open until 7:30 a.m. Until then no tickets could be bought, no newspapers were available, no baggage could be checked and the public telephone could not be used. I stood out in the mist awaiting my train; but a neighbor who was also shaking the door said: "Okay, I'm going down to the Square and get a bus into Boston."

Why Living Costs Are High

Now let us forget, for a moment whether our sympathies are with the railroad or its employees. The fact is that only the bus company wins by such nonsense! The employees have no more money to take home; the railroad loses customers; the newspapers lose sales and the public is much inconvenienced. Of course, this foolishness can't go on forever. More hourly wages, shorter working hours, higher retail prices—all expanding like a balloon—are bound to collapse some time. I don't blame any special group; but do say that the present system is a losing game to all concerned and the true reason for high prices.

The hope of every reader lies with more production, which means more work by all of us. What we get in money wages means nothing until we turn it into "goods." What we can get for our weekly pay in **food, clothing and shelter** is our real wages. This can be increased only through increased production which requires longer and better work and more new inventions. **In fact, the real reason why wage-workers have more goods today is due to inventors and laboratories—not to labor leaders and politicians.**

What Is the Remedy?

Shall we destroy unions? No! Shall we abolish collective bargaining? No! Shall we enact more anti-labor legislation? No! Consumers want happy and satisfied labor with the highest real wages possible. But both employers and wage-earners must cooperate to increase production and the quality of the product. This could be brought about by the union and the employer agreeing on a wage that the "below the average" is worth and then pay a bonus for good work and more of it. Some sort of piecework or incentive pay is the consumer's only hope; and the wage-workers make up 60% of these consumers.

The finished costs would then go down, causing lower prices to benefit consumers; while both real wages and real profits would go up for the more efficient. How can this be brought about? Well, the first step would be to insert a clause in every labor contract that neither the labor officials nor the company officials can get any pay while a strike is on! This simple clause would do more to help out us consumers than any other one thing.

* * *

P.S.—I forgot a part of my railroad story. The train conductor was so busy gossiping with a woman that he failed to take up my ticket, although I had it out in sight. After leaving the train at Boston, I hunted him up and gave it to him. He did not even thank me; but I surely am thankful that I own no railroad stocks! Indifference and lack of interest by both employees and stockholders is the curse of the railroads.

NSTA Notes

BOND CLUB OF DENVER

The Bond Club of Denver has announced the prize winners in the Bond Club—IBA Frolic held on Aug. 22 at the Park Hill Country Club.

Grand prize winner was Al Peterson of the Securities and Exchange Commission in Denver. Don Brown, Boettcher & Co., won low gross with a 74 golf score. Glen Clark of Sidlo, Simons, Roberts & Co., was second and Bob Mitton, Robert Mitton Investments, third. For the Jim Newton Cup, low net was a three-way tie and Emmett Kullgren of the Colorado State Bank was the lucky matcher. The three all had a net of 60.

Twenty-five out-of-town guests attended and Don Brown, who was Chairman of the Committee and his helpers were congratulated for one of the most successful parties held in Denver.

TWIN CITY BOND TRADERS CLUB

Twin City Bond Traders Club will hold its annual golf party at the Southview Country Club, St. Paul, on Friday, Sept. 19, 1947. A cordial invitation extended to all members of the investment fraternity to attend.

Mutual Funds

By HENRY HUNT

Mr. Stevenson Sums Up

Mr. Alec B. Stevenson, Vice-President of the American National Bank of Nashville (Tenn.), has concluded a series of five interesting articles on "Investment Company Shares" which appeared in the monthly magazine, "Trusts and Estates." In his final article, Mr. Stevenson sums up some of the advantages of mutual funds as follows:

"The investment company share offers both individual and fiduciary investors enough conveniences and advantages to justify its use for permanent investment.

"(1) Informed, selective, continuously supervised diversification of investments can often be had more cheaply and more conveniently through investment company shares than in any other way.

"(2) The safeguards, afforded by government statute, regulation and supervision are more complete than is the case with respect to equivalent selections of individual securities, individually supervised.

"(3) The amount and frequency of information available for the exercise of investment judgment are likely to be greater than in the case of individual securities.

"(4) There is a distinct margin of economy and convenience in the mechanical details of trading, bookkeeping, and investment supervision, as compared with an equivalent measure of investment diversification acquired in separate purchases.

"(5) The investment-grade common share provides in one convenient package a level of investment performance, both as to principal and income, which is not readily duplicated except through other forms of group investment or of professional investment management less easily available either to the public or to trustees in general.

"The investment companies are growing and will continue to grow because they meet the needs of investors. The investment company today is making valuable contributions to the art of investment management. Trustees and individual investors who seriously study investment companies will be the wiser for it. If after such study they buy the shares, they will have joined an increasing group whose studies led them to the same final action."

Scudder, Stevens to Eliminate "In and Out" Charges?

It is rumored that the **Scudder, Stevens and Clark Fund**, an offshoot designed for the smaller accounts of the prominent investment counsel firm of the same name, will shortly eliminate the present 1% premium on purchases and 1% discount on liquidations. These premiums and discounts are credited to the fund, but, of course, the purchaser pays them under the present set-up.

However, under the anticipated new set-up, an investor could purchase one day and sell out the next at no loss, assuming no change in the market value of the portfolio. The costs of buying and selling the underlying stocks are expected to be absorbed by the fund itself.

The Scudder, Stevens & Clark Fund, which is of the balanced variety, has been known in the past for the conservative quality of its portfolio and the relatively narrow price movements of its own shares. Its portfolio as of June 30, 1947 was divided as follows: 8.5% in cash and governments, 23.9% in investment grade bonds and preferred stocks and 67.6% in common stocks and lower grade bonds and preferred stocks. Common stock holdings alone at mid-year amounted to $14,037,000 equal to 62% of net assets of $22,637,000.

Fire Insurance Stocks Undervalued?

According to **Hare's Ltd.**, "Currently, stocks of the leading fire insurance companies in which **Insurance Group Shares** provides ownership, can be purchased, on average, for about 25% less than their liquidating value. In other words, $10 of net assets or liquidating value may be purchased for $7.50. Historically such a favorable ratio has always proven to be a profitable level at which to invest."

Paging Mr. Morgan

The following story, probably apocryphal, is old but still a favorite of the writer. Some years ago a partner of Kuhn, Loeb & Co., gave a sealed envelope to his colored valet with instructions to deliver it to Mr. J. P. Morgan in person. After a considerable wait, the colored boy was ushered into Mr. Morgan's inner sanctum, whom he greeted as follows: "Is you de Mo'gan of J. P. Mo'gan?" "I am," replied the great man. "Well, I's de coon from Kuhn, Loeb," was the rejoinder.

Notes:

Hugh W. Long & Co. reports that nearly a million dollars worth of **Diversified Preferred Stock Fund** has been sold since the fund was brought out last April.

The current issue of **Cavlin Bullock's "perspective"** covers the rubber industry.

"National Notes No. 421," issued by **National Securities & Research Corporation**, points out that **National Stock Series**, comprised entirely of common stocks that both earn and pay dividends, now affords a net return of approximately 7%.

"Keynotes," published by the **Keystone Company of Boston**, describes how an investor with $5,000 can obtain a well rounded investment program represented by more than 250 underlying issues.

Distributors Group has issued recent bulletins on its **Petroleum Shares and Building Shares.**

Death of Arnold G. Dana, Formerly Identified With the "Chronicle"

It is with regret that we record the death, on Aug. 23, of Arnold Guyot Dana, the last of a trio of individuals who figured in the development of the "Commercial & Financial Chronicle." Mr. Dana, who was 85 years of age, died at his home in New Haven, Conn., where he was born in 1862. In 1887 he joined the editorial and statistical staff of the "Chronicle," of which his uncle, William B. Dana, was founder, publisher and editor.

Mr. Arnold G. Dana, who retired from the "Chronicle" in 1922, had been associated with it for 35 years, during which time he was Editor of its investment news department and Managing Editor of the Railway and Industrial section of the publication. Following his withdrawal from the "Chronicle" Mr. A. G. Dana returned to his native city of New Haven and in 1923 wrote a series of Articles for the "Chronicle" on "False Prosperity," later also having written on other subjects for the paper. In the New Haven "Evening Register" of Aug. 24, it was noted that in 1925 he prepared a series of articles for the San Juan "Porto Rico Progress" on social and financial problems of Puerto Rico under American rule. These articles later formed the basis for his pamphlet "Porto Rico's Case."

Shortly after returning to New Haven Mr. Dana became a director of the Franklin Process Company of Providence, a textile manufacturing firm with mills in New England, the South and Europe. He continued active in this business until ill health forced him to retire in 1943. The New Haven "Register" also said:

"During the past 10 years Mr. Dana collected pictorial and other material pertaining to the New Haven area and Yale history. He compiled more than 300 volumes which are preserved in the Yale University Library and the New Haven Colony Historical Society.

"The award of the Advertising Club's Gold Medal was for an exhaustive study made of New Haven's general economic position made at the request of the Chamber of Commerce. He published his findings under the title 'New Haven's Problems'."

Mr. Dana is survived by two daughters, Mrs. Philip H. English of New Haven and Mrs Thomas Denison Hewitt of Greenwich; a son, Albro Newton Dana of Providence, and a sister, Maria Trumbull Dana of New Haven, as well as several grandchildren.

Mr. Dana was a member of a family of Yale graduates who were in classes dating from 1727 to 1933.

We Must Help Europe, But Keep U. S. Economy Strong, Says Bullis

(Continued from page 6)

interfere with the enlargement of imports than with the price mechanism. Enlarging our imports will not reduce the number of jobs for American working men. If we cut down our imports, thereby reducing our exports, we would lose jobs making goods for export, and gain jobs making substitutes for imports. The chief difference would be that the jobs making substitutes for imports would be poorer paying jobs.

Marshall Plan Will Increase Our Exports

American companies such as General Mills are interested in maintaining large export markets, and large export markets will be to the benefit of our national economy. It is my belief that if the Marshall Plan is put into effect, it will result in larger export markets for the products of American agriculture.

It seems likely that Western Europe will become increasingly industrialized and less involved in agriculture. As Europe increases its imports of foods, our export markets for food will be correspondingly enlarged. The agriculture of Western Europe will find it advantageous to shift from the production of non-perishable staples like grains to the production of perishable and protective foods like meats and dairy products.

Challenge to Industry

The problem and the challenge to American industry is to increase productivity and to reduce costs per unit not only in the factory, but all the way from the factory to the consumer.

We in General Mills are not fearful of competition. We always had it in prewar years and we consider it to be normal. We shall continue to move ahead with the production and distribution of high quality products and services to meet the needs of the public. We shall continue to strive for improvement and greater efficiency. I have confidence that every member of our company will do his or her part to meet the challenges and opportunities of the future. I look forward to our 20th year with enthusiasm and optimism.

Why Stocks Are Not Discounting High Earnings

By CHARLES J. COLLINS

President, Investment Letters, Inc., Detroit, Mich.

Investment analyst ascribes failure of stocks to rise along with increased corporate earnings to unsatisfactory international situation and crises in foreign countries.

We do not regard current business as being so robust as appears on the surface. Possibly some others who read these words may be in agreement with our viewpoint. There is a body of opinion that takes an opposite position. Let us all, however, in order to limit the present argument, make the assumption that, except for the minor and temporary problems that will continuously arise in any active business period, all is well on Main Street, America, and that, so far ahead as we can reasonably reckon, all is going to remain well.

Charles J. Collins

Having made the above assumption, we are still faced with the question: What is wrong with Wall Street? Stated otherwise, why have individual stocks, over the past year, refused to recognize, in their price level, the brilliant earnings that are being reported? If the business picture is as good as appears, the Dow-Jones average of 30 leading industrials should turn in earnings this year of $18 to $19. Under similar earnings in 1928 and 1929 it sold at over 300 and during the active years 1936-37, even though earnings were not as high as in 1928-29, it discounted each dollar of earnings at the 1928-29 rate. Yet the average is now at 180.

An immediate answer to this paradox is that investment psychology is low. This answer, however, is not satisfactory. Except for those few who, with Dr. Dewey, make allowance for recurrent natural cycles of pessimism and optimism, it begs the question. It is like saying that a man died because he had a high fever. Fever is an infection accompanying disease in the human body and the general consensus is to regard lowered public psychology as an infection accompanying underlying difficulties in the body economic. What, then, can have been the influence at work over the past year that has affected public sentiment?

If, as posited in the opening paragraph, we are to look outside of domestic business for the answer, we cannot bring forth the possibilities of over-extended inventories, contracting working capital, dangerously high break-even points, or prices beyond the purses of consumers. This leaves an important factor not yet considered. This is the whole field of international relationships—political, financial, and economic or trade. Here is room for thought.

America, until recent years, gave little attention to the world at lcarge. For a century and a half we remained immersed in our own problems and did a magnificent job of solving them. The British, so far as we were concerned, could have the rest. Two world wars, the exhaustion of one foreign economy and another, plus the impact of these developments on our own well being, and finally, the globular implications of nuclear energy, have recently changed the American disposition. Willy-nilly, we have been drawn into world affairs, and as the world's most powerful nation have been plunged into a pivotal position.

Faced with this new situation, our first objective, at the last war's end, was the organization of a world federation whereby the peace might be kept and world trade promoted. Institutions, at financial sacrifice on our part, from the United Nations through to the International Bank and the Monetary Fund, were evolved for the purpose. The movement started off with high hope. Over the past year it has collapsed. Root cause of the collapse has been the diametrically opposed ideologies of our government and the Russian Government. Each government has become a nucleus toward which the rest of the world, in the one direction or the other is being drawn.

A World Divided

In short, we are witnessing the slow approach, between a world divided, of what most Americans sense will be a death struggle, a war of unconditional surrender, between two systems. There are things that could happen, such as overthrow of the present Russian Government by the people of Russia, that could change this outlook. But, on any past or present evidence, developments are under way whose concatenation spells but one thing—an onslaught, not between capitalistic groups or on a capitalistic group, but on capitalism itself. Not loot, or plunder, or territory is at stake; but an idea. Wars of this kind attain a frenzy above those of pillage.

In the drying up of international commerce that is being witnessed out of the current trend of world events, other capitalistic nations, of which Great Britain is a chief example, are facing internal crises, with no clear-cut indication that their conditions can improve before they get worse. Thus, at a time when our resources should be husbanded we are daily, weekly, and monthly witnessing the atrophying of the sinews of such outside world strength as we might hope would be of assistance as the ideological clash intensifies.

Earnings, and the ability of investors to share in them through corporate ownership, are one of the important fruits of capitalism. Any major threat to capitalism is, therefore, a threat to earnings. While few Americans will doubt the eventual outcome of the ideological struggle now marching to its denouement, neither can they overlook the threat that it contains. Is it not possible that, even though the domestic business outlook be assumed as favorable, and even though the implications of the cycle theory be ruled out, the international situation, as just outlined, is sufficiently grave as to cause modification on the American exchange of the rate at which earnings have been habitually discounted?

With McAlister, Smith & Pate

Special to THE FINANCIAL CHRONICLE

PINEHURST, N. C.—Herbert J. Dietenhofer has become associated with McAlister, Smith & Pate, Inc., of Greenville, South Carolina. He was formerly Pinehurst Manager for J. H. Goddard & Co. of Boston, with which he had been associated for many years.

A View of Postwar Russia*

Finnish visitor paints dark picture of economic conditions in Russia, with lack of food and consumer goods and disorganization of transport. Says Russians hope for economic collapse in U. S.

A Finnish subject who has recently visited Moscow has told us the following about life and conditions in the Soviet capital: Russia is waiting and hoping that the U. S. A. will soon be shaken by an economic crisis with an unemployment of 6-8 millions in its train. It is anticipated that the resulting chaos will compel the U. S. Government to leave European affairs alone and to abandon its present policy of resistance to Moscow's plans. Moscow's scientific propagandist, Professor Varga, has already written scores of articles prophesying an American crisis within the next months.

Another hope of the Soviets was to build up Russia by means of war booty from the occupied countries which are being stripped literally to the bone in the interests of Russia's economy. Great reparations were expected from the Allied Zones of Germany in the belief that the Allies would not refuse delivery, being anxious to maintain friendly relations with the USSR. These hopes have now come to nothing. The pace of reconstruction has slowed down considerably since America has ceased sending relief to the Soviets. The robbing of the occupied countries has proved less gainful than was hoped. Two bad harvests in succession also make themselves painfully felt. There is a shortage of grain and sugar is a still rarer commodity. The want of food entails a decrease of productivity in every industry. Russia is really in a very difficult position and actually undergoing an economic crisis similar to the one predicted by Professor Varga for the U. S. A. In a state capitalistic country, such as the USSR, this crisis is, of course, bound to be of a different nature. For the first, there is no unemployment. People are more ruthlessly compelled to work than ever before and the fullest possible use is made of the labor of war prisoners and convicts, whose total number is at present evaluated at 20 millions.

The crisis mainly expresses itself in the lack of food and consumer goods and in the disorganization of transport. Millions of men in their best working age have either fallen or been disabled by the war and the people can no longer work at the prewar pace. Productivity is decreasing in every field. The government, however, wants to increase it by up to 25% and hopes to attain this by lengthening the working day and by increasing the workers' individual quota. The more information about the Soviet crisis penetrates abroad the greater are the government's efforts to make the iron curtain even denser than it already is. That the productive apparatus of the country is at least partly in a chaotic condition is borne out by the punitive measures repeatedly applied by the authorities. The purges have hitherto been directed mainly against the agricultural population.

Moscow, the capital, with its population of six million people, makes an impression of utter misery. The majority of the inhabitants are literally dressed in rags. Food prices have been raised by 200% within the last nine months. The life of the people is indescribably hard but the government, nevertheless, has not abandoned its plans to industrialize the country. The housing crisis is appalling; even small rooms have to do for a family of five on the average. That several families live in one flat and cook in a common kitchen has ever been the rule in the Soviet Union. The war has further reduced the available living space. On paper the Five-Year Plan provides for considerable building activity. In Moscow alone it is proposed to build apartments to the tune of three million square metres of floor space. This giant plan has hitherto not been carried out to any extent worth mentioning: during the last year building activities confined themselves to less than 100,000 square metres of floor space.

A worker's average wages are 500 rubles per month. Half of this he has to spend on his food, about one-sixth is deducted in taxes and loans and on the rest he has to keep his family, buy his own and their clothes, pay the rent, etc. A suit of clothes of shoddy material costs 900 rubles when bought with a purchasing permit, which are sometimes issued as bonuses to contributions toward various state exemplary workers; on the free market its price is 3,000 rubles. A pair of rough women's shoes costs 280 rubles when bought with a purchasing permit and up to 1,500 rubles on the free market. Hence, the rags the population have to wear. Shopping for clothes is mainly done at second hand, soldiers occasionally selling cheaply things they have robbed abroad. Even European luxuries can sometimes be obtained from these same soldiers but at prices which are inaccessible to the ordinary Soviet citizen.

The only well-dressed people in the Soviet country are Communist party members, officers, high officials and members of their families. This privileged Soviet aristocracy shops in special stores which an ordinary mortal may not even enter.

*Abstracted from "Newsletter from Behind the Iron Curtain," compiled by "The Baltic Review," Post Box 724, Stockholm 1, Sweden.

Frederic A. Adams Is Resuming Inv. Business

DENVER, COLO.—Frederic A. Adams is resuming the investment business from offices at 745 Marion Street. Mr. Adams has recently been engaged in government service. In the past he was a partner in Engle, Adams & Co.

Frederic A. Adams

M. C. Brittain Joins John B. Dunbar Staff

Special to THE FINANCIAL CHRONICLE

LOS ANGELES, CALIF.—Milton C. Brittain has become associated with John B. Dunbar & Co., 634 South Spring Street. Mr. Brittain was formerly with Cruttenden & Co. and Bateman, Eichler & Co.

With John B. Joyce & Co.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, O.—John B. Joyce, Jr., and Arthur J. Duffy have joined the staff of John B. Joyce & Co., Huntington Bank Bldg.

Private Investment and the Secondary Market for GI Home Loans

By T. B. KING*

Director of Loan Guaranty Service, Veterans Administration

VA official urges private investment institutions, such as insurance companies and investment pools, take up function of RFC as secondary market for GI Home Loans, since Congress ended operations of the RFC Mortgage Corporation on June 30. Says secondary market is badly needed for GI Loans in rural areas and small communities and taking up this slack would prove private investment is capable of providing credit without government aid.

Early in the Fall of 1946, the open market that had previously existed for GI home loans practically vanished. Post-analysis of that development traces it to three primary influences:

T. B. King

(1) A shortening of the sails of credit preparatory to riding out the recession then thought to be imminent, and supposedly heralded by the abrupt break in the security markets which then occurred;

(2) Observation of the general inability of the VA appraisal system then in effect to curtail excessive prices on the sale of homes to veterans, and;

(3) Failure of private secondary market investors to anticipate and to plan for inclusion in their portfolios of the unprecedented volume of such loans that were being processed each month.

With the continuance of economic prosperity, and the checks put on the VA appraisal system in January, 1947, the participation of the secondary investor in the supplying of credit to the GI loan program has steadily expanded. The larger insurance and investing institutions have in particular developed and expanded conduits through which many millions of dollars in such loans flow into their portfolios each week.

The steadiness of the rate of private absorption of these loans is evidenced by the fact that up until the final flurry to market loans to RFC in anticipation of the June 30 cut-off, the RFC Mortgage Co. had purchased only about $50 million of GI loans in about nine months of operation, only a little more than 1% of the aggregate dollar volume of GI home loans made since the inception of the Program.

*Reprinted from "The Mortgage Banker," organ of the Mortgage Bankers Association of America, August, 1947.

Whether or not this trend toward expanding participation will serve measurably to bridge the gaps which opened in the wall of available credit with the elimination of the RFC market is dependent largely on the geographic orientation followed by investors in their mortgage purchase programs.

It is my belief that insurance companies and other investment groups with substantial capital resources can go far toward providing an adequate secondary market for GI home loans if they will expand and extend their investment activity in the less populous sections of the Nation. These same institutional groups are already investing millions of dollars in GI home loans either by originating the loans themselves through local offices or agencies or by purchase from correspondents. Generally speaking, throughout those areas adjacent to the metropolitan centers, there is a satisfactory participation of investment capital in providing a market outlet for those local lending institutions who wish to sell GI home loans. If this type of investment activity were taking place in all sections of the country, especially those sections distant from the large urban capital centers, the problem of affording a secondary market for GI loans would largely evaporate.

This concentration of the need for a secondary market for GI home loans in the semi-rural and more sparsely industrialized areas of the nation results from the fact that local lending institutions tend to have relatively limited resources for investment in long-term real estate loans, or are accustomed to employ such resources as they have at yields far above those considered attractive by capital in the urban industrial areas.

Community lending institutions in the non-metropolitan areas find it difficult to extend sufficient credit to veteran home buyers without putting a strain on their reserves. They are the groups with a real need for a secondary market which institutional investors such as insurance companies have the financial resources to provide. Outside capital to augment the deficient capital supply is the answer to the problem. Outside capital in the form of secondary market outlets would encourage the smaller lenders to supply needed credit to the veteran by providing a means for converting GI loans to cash when their credit exhaustion point is approached, or when they require additional cash to meet fluctuating demands for agricultural or business credit.

The tendency toward a scarcity of capital resources in some of the less industrialized areas is borne out by the record of GI home mortgage purchases made by the RFC Mortgage Company prior to June 30, 1947. At the end of May 1947 four of the five RFC offices which had bought the largest dollar volume of GI home loans from private lenders were Jacksonville, Atlanta, Houston and Oklahoma City. In contrast, the volume of purchase in the larger urban areas such as New York, Detroit and Chicago lagged behind, indicating a plentitude of private investment capital in these centers.

It is significant to point out that some of the less urbanized sections of the country are experiencing a more rapid economic development than the older, more settled areas. The South is an example of this trend. According to a recent report of the Bureau of Labor Statistics industrialization in the South had proceeded at a faster rate than the national average. In 1880 the South had less than 8% of the total U. S. manufacturing population; by 1939 it had 17%. The report also shows that the potential rate of labor force growth in the South is the nation's greatest. Expansion in other areas of the U. S. which have been generally regarded as predominantly rural and sparsely populated has also been rapid. It seems probable in these areas with a brightening economic future that mortgage investment possibilities will develop with increasing tempo. The GI loan is a forerunner of those possibilities.

The problem of providing adequate investment capital for GI home mortgages could well be solved if large insurance companies and other investment pools can expand their mortgage origination and purchase programs into these areas, and if smaller insurance companies and other investors already located on the scene will step up their investment activity in their home territory.

There are a number of factors in the present situation which suggest that an extension of investment activity into regions where there is a lack of adequate investment capital would work to the benefit not only of veterans, but also of the institutional investors themselves. Discussion of these factors in some detail may serve to good purpose.

It is widely known that insurance companies and other large investors are currently faced with a very real problem of finding attractive investment outlets for the excess funds now available to them through greatly expanded asset holdings. For example, a recent article in the "Harvard Business Review" on the subject of life insurance investment outlets estimates that life insurance companies are now struggling to invest profitably an accumulation of $3.5 billions of new assets each year. The article further estimates that about $700 million of this annual increment may not find a productive investment outlet.

It is to be hoped and expected that GI home loans will absorb a substantial amount of these excess funds. During the next 12 months there is every expectation that the number of guaranteed or insured home loans will exceed 550,000 with a total principal amount of well over $3 billions. GI home loan approvals during June exceeded 51,000 bringing the cumulative total to almost 790,000 home loans with a principal amount of over $4.5 billions.

Before discussing the attractive features of GI home loans as an investment outlet, it should be emphasized that the interest of the VA in broadening the secondary market is not motivated by a desire to expand the current volume of GI home loans to higher levels. Rather our interest is to assure a steady flow of needed capital into the program, particularly with reference to those parts of the country where such a flow is lacking.

GI home loans offer a number of attractions which recommend them as additions to investment portfolios.

Recent changes in VA's appraisal policies have enhanced the soundness of GI loans as investments. Early in 1947 the VA system of apprasing reasonable value for GI home loans was tightened up. Whereas previously lenders were empowered to select any one appraiser from a designated panel within the locality, under the revised system the VA itself designates an individual appraiser for each property and appoints a selected group of appraisers to act in each case where five or more similar houses may be involved. This increased VA supervision over the appraisal procedure has been generally welcomed and observed to afford additional protection for veteran borrowers, lenders, investor purchasers of GI home loans, and the government alike.

Also important is the fact that GI home loans offer an attractive yield to institutional investors. As a general rule, the yield to institutions which purchase GI home loans for investment is higher than alternative investments, such as government or corporate bond issues. This is true even if they are purchased at a moderate premium.

The investor-appeal of these loans has been augmented by the excellent record veterans have made in repaying their GI loans Of 790,000 home loans approved through June 25, 1947, less than 5,000 have been reported in default, while more than 12,000 have been paid in full. This represents a default ratio of only 6% or barely over ½ of 1%. Moreover, about 1,800 of these reported defaults have already been cured.

Emphasis should also be placed upon the protective character of the VA guaranty which greatly reduces the element of investment risk in GI loans. Under the guaranty the values of residential real estate which represents are security for GI home loans would have to plummet drastically before the investor would face possible loss on his investment in the event of default. As an example take the case of a $10,000 amortized home loan running for 20 years which is guaranteed for the maximum of $4,000. The market value of the home which is the underlying security for the loan would have to decline to a point 42% below the amount of the loan at the end of the first year of the loan before the investor would face a prospective principal loss in case of default. At the end of the sixth year of the loan, the marketable value of the property securing the loan would need to sink to 53% below the amount of the original loan before the investor would face possible principal loss. It is difficult to see how, within the foreseeable future, such a drastic decline in real estate values could occur unless our economy experiences a depression of tragic magnitude. And in that event, it is quite probable that other presumably gilt-edged investments would be on an even more precarious footing.

The fact that the claim is paid in cash and not in the form of bonds or debentures with varying maturities should also appeal to the investor in GI home loans.

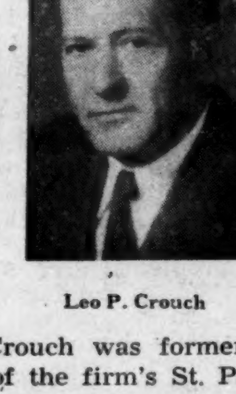
Taking all of the factors into consideration, it may be expected that the larger insurance companies and other investment pools will concern themselves with a reexamination of the geographic locations in which they invest in urban home mortgages with a view toward possibly expanding their GI home mortgage purchase program in previously neglected regions and less-populated areas. Similarly, smaller insurance companies and other investors already located in these areas should consider including a more sizable block of GI home loans in their portfolios for the present year and for 1948. If this can be done, the problem facing lenders with inadequate secondary market facilities for GI home loans will be greatly minimized. Such a development, moreover, by giving evidence of the ability of private investors to furnish the necessary flow of capital into the GI loan program, would indicate the answer as to whether or not there is need for a government-provided secondary market by the time Congress returns in January 1948.

H. E. Scott to Open Own Firm in New York

Herbert E. Scott will shortly engage in a general market securities business from offices at 25 Broad Street, New York City (Room 1541). Mr. Scott was formerly with A. E. Ames & Co., Inc. and prior thereto did business under the firm name of H. E. Scott Co.

Thomson & McKinnon Branch in Atlanta Under L. P. Crouch

ATLANTA, GA. — Thomson & McKinnon, members of the New York Stock Exchange and other Exchanges, have opened an office in the Healey Building Arcade under the direction of Leo P. Crouch.



Leo P. Crouch

Mr. Crouch was formerly Manager of the firm's St. Petersburg branch.

Joins Clark Davis Staff

Special to THE FINANCIAL CHRONICLE

MIAMI, FLA.—Eugene V. Walter is now connected with Clark Davis Company, Lanford Bldg.

SEC Reports on Market Break of Sept. 3, 1946

James A. Treanor, Jr., Director of the Trading and Exchange Division, finds no concerted action by any group and reports largest sellers on balance were individual investors, and largest group of buyers were investment trusts and institutions. Says study will be continued.

After a study extending almost a full year, the Trading and Exchange Division of the Securities and Exchange Commission, headed by James A. Treanor, Jr., on Aug. 22, released its report on the trading on the New York Stock Exchange on Sept. 3, 1946, when stock prices underwent a severe decline. The statement issued by the SEC in connection with the report follows:

J. A. Treanor, Jr.

"On Sept. 3, 1946, the average share price of the 945 issues traded in 100 share lots on the New York Stock Exchange declined from $39.35 to $36.95. Some time thereafter we began a study of that day's stock trading on the Exchange. The Trading and Exchange Division of the Commission has recently completed a report entitled 'Stock Trading on the New York Stock Exchange on Sept. 3, 1946.' We have this day released the Report.

"The Report analyses the buying and selling of various types of buyers and sellers, in 15 minute (and in some cases, shorter) periods throughout the day. It traces prices for each minute of the day and describes the buying and selling in all stocks traded in 100 share lots and in various classifications of these stocks. It shows what was being done at given times by public buyers, foreigners, banks, investment trusts, odd lot dealers, member and non-member firms (for firm and individual accounts, and for wives and dependents), and by floor traders and specialists. These activities are in turn sub-divided into transactions in all stocks, in stocks graded according to activity, according to their use in standard indices, in stocks with different rates of decline throughout the day, and in stocks of various industrial classifications.

"In gathering material for the study, our staff had access to the records of the Exchange and of its members; their facilities were made freely available and the study has been greatly facilitated by their cooperation. The same is true of the many public traders who gave information about their own transactions. Attached to the Report are statistical data gathered in the study consisting of over 70 tables, charts and graphs.

"We have afforded to the Exchange an opportunity for comment on the Report. It has made certain suggestions. We have not felt it necessary to reflect any of these suggestions save those which were helpful in clarifying and making more concise the statement of the facts contained in the Report.

"The Report is limited to a description of market activity and does not deal with the general domestic and international economic background of the day's market. Based on a voluminous collection of detailed information, it gives the most comprehensive picture of a day's market yet presented. It reaches no conclusions.

"This limitation was inevitable. While the study may be susceptible to a variety of interpretations based on differing outlooks and standards, no group or individual, professional or public, nor any single market factor, plainly appears as exclusively or primarily accountable for the character of the trading throughout the day.

"The study was not undertaken because of evidence that anyone had manipulated the market in violation of our statutes or rules. In surveying the collected data we find no evidence that market prices depended at any moment on manipulative activities. Nowhere does it appear that the overall market action resulted from planned or concerted action by any group; nor do the activities of any group seem to have amounted to more than the free play of different opinions as to when to buy and when to sell. As the Report makes clear the 'on balance' purchases or sales of any group for the day do not necessarily mean that the group maintained a consistent purchase or sale policy throughout the day in all stocks or in any given classification of stocks. Nor does the 'on balance' position of any group necessarily signify that all or most of the individuals in the group shared the group's position or behaved typically with the group throughout the day.

"The Report shows that the conduct of groups varied with intervals of time and with classifications of stocks. For example, in most periods when some groups composed of members of the Exchange were buying, others were selling. There are two 15-minute periods in which all member groups had a sale balance position in the 945 stocks traded. They had different balances in the other 18 15-minute periods of the day. Except in one of the 15-minute periods in the case of the most active stocks (as distinguished from all stocks) and without exception in other classifications of stocks, the pattern of their positions was different throughout the day.

"For the entire day specialists were on balance buyers in the 945 issues traded, and in all classifications of stocks except the five most active and 50 utilities. Floor traders were on balance buyers for the day in value of stocks traded, were on balance share buyers for the day in the Dow-Jones stocks, high-priced, medium priced, all inactive stocks, in 45 of the 50 most active stocks, and sellers in other categories. In the 215 stocks with the largest price declines of the day, specialists, floor traders, and member and non-member firms, (trading for firm, individual, and dependents' accounts) were on balance buyers.

"The largest group of sellers on balance for the day consisted of members of the public and the largest group of buyers on balance consisted of investment trusts and other institutional purchasers.

"Short sales appear from the study to have been an insignificant factor in the day's market. According to the Report they amounted to no more than 1.5% of all sales. Under our rules short sales cannot be made below the last sale price and cannot be made at the last sale price unless that was higher than the preceding different sale price. These limitations act as a brake on the depressing effect of short selling. Consequently the net effect of short selling may be less than that of a similar volume of sales against inventory.

"The graph of average prices for the day shows a moderate decline from the opening until shortly after 11 a.m. Thenceforth, and until about noon, there was a sharp decline followed by a more gradual decline until about 12:45. For the next hour prices declined sharply again, then began levelling off until near closing when, in the last few minutes, they had a short decline. From the opening until 11:45 foreigners were on balance heavy sellers; their sales concentrated in the first few minutes of the day. Public traders were also on balance sellers in the opening half hour. With the exception of specialists, who were large on balance buyers in the first half hour, all member groups were on balance sellers during that period.

"During the first part of each of the two periods of sharp decline, most member groups were sellers on balance, while odd-lot dealers, public traders, and investment companies were on balance buyers. In the latter parts of those declines, the positions were reversed, member groups being, in general, buyers and public traders being sellers on balance — the public traders' selling continuing on balance for the remainder of the day. However, member and non-member brokers and dealers were at times buying for some controlled accounts while during the same periods they were selling for others. For most periods of the day member groups did not have the same on balance positions.

"Respecting member groups' trading the study shows what is already known: that it is an integral part of the whole market. Selling on balance by specialists as a group and by other member groups preceded and coincided with the first parts of the major price declines; their reversal to buying on balance in the latter parts of the declines preceded periods of relative levelling.

"Concentrated selling by any group, public or members of the Exchange puts pressure on the market. Its effect varies with many factors. It may occur in rising as well as falling markets. As refined as the study is it does not, in our view, afford a basis for any assured generalization about the effect of the trading by any group on either the whole character of the Sept. 3 market or its character in any given period of the day. Indeed, it seems clear from the Report that it would be fallacious to think of any of the groups trading on that day as a single responsive body. The buying and selling of all groups on Sept. 3 (as is probably true of other days) is a statistical composite of the separate trading of different individuals, each acting on his own initiative and from his own motives. Some acted contrary to the average of the groups.

"This does not, however, imply that a composite view of group activities may not aid the formulation and evaluation of standards designed to maintain fair and orderly markets. The challenge in working out such standards is to preserve a maximum of freedom for the interplay of individual opinion while minimizing such restraints on a free market as may arise from the unwarranted exercise of advantage derived through special position. A purely factual analysis of this one day's market, considered alone, does show what further controls, if any, may be necessary or desirable to achieve that objective. It adds to our previous knowledge a wealth of factual detail that should give perspective to further analysis of broader scope. But more needs to be known, and we propose to find out more, than this highly intensive but limited study tells us. We shall continue also to consider whether, with this and other additional information, it may not be possible to reach a more precise definition than anyone has yet been able to achieve, of what constitutes a fair and orderly market within our tradition of free markets. In so doing it is necessary to keep constantly in mind what we regard as a basic premise of the laws we administer: that fair and orderly markets are intended also to be free markets—free alike from the restraints of arbitrary or capriciously contrived regulation and from the restraint imposed by manipulation, fraud and abuse of special advantage. Free markets are never likely to be precisely predictable, or static or to go only up."

Holds Firms Violated Margin Rule Unintentionally

U. S. District Court at Cleveland enters final injunction for violation of Rule T of Federal Reserve Board.

Judge Robert N. Wilkin, of the U. S. District Court of Cleveland, on Aug. 21 upheld the injunction against several securities brokerage concerns, three of them member of the New York Stock Exchange, accused of violating Regulation T governing extension of credit by members of national securities exchanges and other brokers and dealers to customers. The New York Stock Exchange members involved were Hirsch & Co. in Cleveland, Butler, Wick & Co., Youngstown, Ohio, and A. E. Masten & Co. of Pittsburgh. The over-the-counter house of S. T. Jackson & Co., Inc., of Youngstown, was also included in the injunction against A. E. Masten & Co. Each of the three judgments by Judge Wilkin upholding the injunctions contained a statement to the effect that the violations had been committed unintentionally, and no charge of intentional violation had been made by the Securities and Exchange Commission in its complaint.

With Southeastern Securs.

Special to THE FINANCIAL CHRONICLE

WASHINGTON, N. C.—Harvey C. Elliott has become associated with Southeastern Securities of Charlotte. In the past he was Washington, N. C., representative for the Carolina Securities Corp.

With Geo. I. Griffin

Special to THE FINANCIAL CHRONICLE

RALEIGH, N. C. — Louis L. Moorman, Jr., has become affiliated with George I. Griffin, Insurance Building.

Securities Salesman's Corner

By JOHN DUTTON

Many dealers have wished that there was a short cut method of doing business by mail. It would be an ideal set-up if securities could be sold in large volume through the use of mail campaigns but up to this point I have never heard of anyone doing it to the exclusion of all other methods of solicitation. Some have had success with an occasional mail idea but the main benefit from sales correspondence has been its use in conjunction with direct sales solicitation.

There are several important factors which must be present if you are going to be successful in obtaining new accounts from a mail campaign. If any one of the following are missing you are very likely to waste your money and your time.

(1) Choice of list. It is vital that you send your first message to a group of qualified people. After experiencing quite a number of tests with various mailings the writer has found no absolute method of determining in advance what constitutes a good prospect list. Some lists will pull replies and others will do very poorly. The insurance stockholders lists have never brought in a very large percentage of replies in our experience but in most cases the quality of leads is above average. A reorganization situation seems to be the best producer of replies especially if you make an offer of information without obligation. Often the lists that you least expect to produce do the best. Another good list is a company that has been experiencing difficult times (such as the passing of a dividend or an interest payment) and you can make an offer of information.

(2) After you send out your first replies to inquiries received keep a record of what you have done. Follow up this mailing with another offer of information. Suggest a free offer of statistical reports, enclose a list form, etc. Or offer a particular security but always MAKE YOUR PROSPECT WRITE TO YOU. The following letter is an example of what we mean and if used properly it will pull replies.

Dear Mr.__________________,

We have just completed a study of the common stock of a very excellent company which is now available under $____ per share. The common dividend is at the current rate of $____ a share per annum.

This company is engaged in the steel industry and is one of the major producers of ____________ and ____________ in the country.

In case you would like to have the latest report we will be pleased to send it to you.

Yours very truly,

Blank & Co.

Please send above information________________________

You will notice the line at the bottom of the letter for your prospect to sign. The objective of a successful mail campaign is to make him do something too. The more often your prospect writes to you the more likely he is of doing business with you. It isn't only the number of times he sees your name and literature that counts, it is bringing him into action that paves the way for confidence and future business.

(3) Always make it easy for your prospect to reply. This is such an obvious necessity for obtaining replies but many times it is overlooked. Always enclose self addressed, postage paid reply envelope. Use double cards.

(4) After you have received a few replies start to write a more personal letter. At the beginning of your correspondence it is natural that you should be formal (but never stiff). But after the second or third letter try and elicit a response along more direct lines. If you are good at writing a chatty letter about the outlook for securities, or any general subject of interest to investors this is the time to do it. From here on you must play the law of averages. Remember if you obtain one or two good accounts that run into the six or seven figures you've got something worthwhile. The nice part of selling anything is that you never know when you are going to hit something big and once in a while it happens.

(5) Good stationery—neat typing—short concise phrases—no overstating or overselling—these things are very important. In mail selling you are judged by the quality of your approach.

"No Recession," Says Labor Department Statistical Head

Ewan Clague, Director of Bureau of Labor Statistics, holds that even sharp decline in exports will not cause business slump.

At a news conference on Aug. 20, Ewan Clague, Director of the Bureau of Labor Statistics of the Department of Labor, expressed the opinion that there would be no serious recession, and that the predicted summer business slump has been postponed indefinitely. "From my vantage, viewing employment and construction, I don't see any weakness yet," said Director Clague. "Nothing looks startling and I don't see anything that will topple us over," he added.

Referring to the effects of drastic decline in exports, Mr. Clague remarked that even if this occurred "we have a very resurgent domestic demand which could absorb a large part of it."

Asked if he expected the Marshall Plan for European aid to keep up exports, Mr. Clague replied: "Exports are now exceeding imports by a very large volume. Obviously this great excess of exports over imports can't be kept up without some form of loans abroad."

Fleetwood Inv. Co.

DENVER, COLO.—G. D. Fleetwood and Wm. McCullough Fleetwood have formed the Fleetwood Investment Co. with offices at 1080 Sherman Street to engage in the securities business.

Patrick Buckley Dead

Patrick E. Buckley, partner in Harris, Upham & Co., with headquarters in Chicago, died at his home at the age of fifty-nine.

British Treasury Reports on Use of American Loan

Dr. Hugh Dalton, Chancellor of the Exchequer, tells Parliament how loan was spent and plans to overcome export deficit. Foresees exhaustion of U. S. credit by October and estimates sterling blocked balances above $14 billions.

Dr. Hugh Dalton, formerly Professor of Public Finance at the London School of Economics and now Chancellor of the Exchequer in the Labor Cabinet of Great Britain, explained to Parliament on August 7 the use made of the $3,750,000,000 U. S. loan granted Britain and the reasons why it is expected to be exhausted by October of this year. Excerpts of his remarks, as furnished by the British Information Services, follow:

Sir Hugh Dalton

"It has been alleged that the loan has been squandered. The following figures, in millions of dollars, will show how the loan has been drawn and spent.

"Regarding the July figure, we postponed until July 1, at the request of the United States Government, a drawing of $150,000,000 which we had desired to make in June. Secondly, July included one of the large periodic dollar payments on behalf of the Germans—to keep them alive. In July $50,000,000 were drawn for that purpose. Thirdly, in July we began to make payments for the Canadian grain shipments under the four-year contract, which are always concentrated in the few summer months when the St. Lawrence is open. During these months the Canadian wheat flowed at an exceptional pace. There was an additional payment of $40,000,000 in respect of Canadian grain.

"Further, there is a distinction to be drawn between drawings and spendings in a month. For instance, of the $700,000,000 drawn in July some were carried over into August. Therefore, in looking at the rate of exhaustion of the credit it is more important to look at spendings rather than drawings. . . .

"On direct United Kingdom purchases in the United States in the 12 months ended June 30, 1947, we spent $1,540,000,000, as against earnings in the United States of exports, visible and invisible, amounting to $340,000,000 — an adverse balance of $1,200,000,000. These direct purchases were divided up as follows:

Food	25%
Raw materials (including petroleum)	27%
Machinery	14%
Ships	7%
Tobacco	12%
Films	4%
Germany (food and other supplies)	11%

"But this is only the first item in the account. There are also United Kingdom purchases with dollars in the rest of the Western Hemisphere—Canada and South-ern America. During the same period we spent 615,000,000 United States dollars, divided thus: In Canada, $220,000,000 practically all food, predominantly wheat; in Central America, $260,000,000 principally oil and sugar; and in Argentina and other South American countries, $135,000,000, principally meat and some cereals. The question of convertibility is not principally what is written in the Anglo-American loan agreement. These countries are running very short of dollars and are increasingly demanding from us sterling convertible at once into dollars. If we had not agreed to that they would have invoiced the bill to us in dollars straight away.

"Our grave difficulties would be almost over if we could export enough of our own goods and services to pay for the imports we need. Our difficulties all rise from our inability to do that. . . .

The Sterling Area

". . . We, in this country, are the bankers of the sterling area and we hold the gold reserves for the whole sterling area. In the first six months of this calendar year we were asked to find $205,000,000 for the current trading of the sterling area as a whole—that was $50,000,000 for South Africa, $60,000,000 for Australia, and $235,000,000 for the major part of the area, including all the Colonies and India; while on the other side of the account Malaya had earned $140,000,000 by the sale of her natural products.

"But in the last six months of the previous year, instead of our having to pay out to the rest of the sterling area, the rest of the sterling area paid in to us, in the aggregate, $155,000,000. Therefore, taking the year as a whole our total payment out was $50,000,000.

"Our sterling balances stand at nominal figures which can not be regarded as figures which can be finally taken for granted for commercial and trading transactions. The totals of those sterling balances arose in the ordinary way of trade since the end of the war and under special war-time conditions. These resemble war debts as we have known them in the past and to which correspond no tangible assets at all, except victory. . . .

"The nominal figure of the total of these balances at the end of June stood at $14,236,000,000. This excludes all liabilities in respect of the United States and Canada. It includes balances representing the turnover of trade since the end of the war, but by far the larger part are balances accumulated during the war. . . .

"When the United States credit has been exhausted—it will probably be in the month of October—a number of measures we are going to take will have effects—some of them immediate, such as stopping the buying of foodstuffs in hard-currency countries, and others less immediate, such as the cut in foreign travel allowances. The effect of these cuts, I hope, will be somewhat to extend the period before the exhaustion of the United States credit.

Canadian Loan

"Beyond the United States credit it stands three elements: There is the remains of the Canadian loan—at the present time there is outstanding $500,000,000. But the Canadians have themselves run into a storm and have frankly told us that they are finding great difficulty in paying for imports from the United States with the export of their own produce. They have asked us to go slow in drawing on this credit, and of course we have acceded to their request. It has been agreed between the two Governments that we should meet our Canadian dollar expenditure—payment for the purchase of wheat in particular and other things—only as to 50% by drawing on the Canadian credit and as to the other 50% by drawing on United States credit.

"In the second place, there is the possibility of drawing on the International Monetary Fund. This Fund was never intended to make long-term loans or to correct anything as fundamental as a worldwide dollar famine from which the world is now suffering. . . . The present emergency is very much more than a temporary emergency, not only for ourselves but for other members of the Fund. Our drawing rights under the constitution of the Fund are limited to $320,000,000 a year for four years—$1,280,000,000 in all. . . .

"In the third place stand our gold and dollar reserves: these now stand at $2,400,000,000. They have varied very little over the past year. It is important that this should be explained in the United States because some people think we have been using the United States credit to pile up gold and dollar reserves. Such is not the case. . . .

"Our trouble is this wide yawning gap between exports and imports, and no less or more than that. Therefore, all our measures must be aimed at narrowing the gap at both ends, and to operating on both sides of the gap to narrow it. We shall only get straight when we can pay with our current exports, visible and invisible, for our necessary imports. That is the goal at which we must aim, and we must accomplish this in any case, whatever temporary alleviation may be got, whether through international discussions in Paris, regarding Europe, or international discussions in Washington regarding the part the United States can play. We must close this gap within, at the outside, a short span of years, and all the other devices must be no more than bridging devices for a year or two.

"This means that we must spend fewer dollars on imports, fewer dollars on oversea Government expenditure, and we must earn more dollars by our own efforts, and these are the only factors in the case. Our own imports, including invisible, and our own oversea expenditure must be so adjusted that, within a few years at the most, we can close this gap. We are confronted, as to the size of the gap, in terms of dollars, with $2,400,000,000 worth in this year, so far as the western hemisphere as a whole is concerned, including Canada and the Latin American States as well as the United States.

"With a view to closing this gap we are proposing these measures. We are proposing to reduce our foreign exchange expenditure on imports of food from hard currency sources at the rate of $48,000,000 a month, and with regard to a large number of other items of expenditure, giving a total, additional to food, of over $200,000,000 a year. The result of this will be, in round figures, that if we were to continue the reduction in food imports from hard currency sources, while hoping to supplement these in considerable amount from soft currency sources, there would be a total saving at the annual rate of $800,000,000 a year—a fair contribution towards reducing the size of the gap. In addition, there will be savings in respect of Germany, savings which we cannot yet estimate with precision. But this still leaves a wide gap which can only be reduced by the rapid expansion of our own exports. . . ."

	Net Spent	Drawn from Loan	Cumulative Total	Balance Left
		(In Millions of Dollars)		
1946—3rd Quarter	$210	$400	$400	$3,350
4th Quarter	369	200	600	3,150
1947—January	137	200	800	2,950
February	224	100	900	2,850
March	323	200	1,100	2,650
April	307	450	1,550	2,200
May	334	200	1,750	2,000
June	308	300	2,050	1,700
July	538	700	2,750	1,000

FDIC Reports Increased 1946 Earnings of Commercial Banks

Process has been continuous since 1938 and larger earnings in 1946 attributed both to higher rates and increased volume of loans, offset in part by higher operating expenses. Net profits average about 10% on capital accounts of which about one-third was paid out in dividends.

The 1946 Annual Report of the Federal Deposit Insurance Corporation, just released, furnishes some interesting data regarding the earnings and dividend payments of insured commercial banks. According to the report.

Both total and net current operating earnings of insured commercial banks have increased in each year since 1938, and in 1946 attained the highest levels on record. The 1946 increases, in each case 15%, reflected chiefly the higher average rate of return secured on loans and the larger volume of loans. Net profits after taxes were slightly below the level attained in 1945 because charge-offs and income taxes were higher, and recoveries and profits on assets sold were lower. The 1946 net profits represented a rate of 10% of total capital accounts.

Dividends paid to stockholders, though higher than in any previous year of deposit insurance, absorbed about one-third of net profits after taxes. Continuance of the conservative dividend policy followed by the banks during the war years resulted in substantial net additions to total capital accounts. These additions, coupled with a decline in total assets, brought about a rise in the ratio of total capital accounts to total assets—the first rise since 1937.

The improvement in the profitability of banking operations, which has been characteristic of recent years, has been general throughout the banking system. In each of the last three years, practically no banks have sustained net losses after taxes.

The improvement in rates of net profit in 1946 over the preceding year was also widespread; it occurred among banks throughout the country, except the larger banks in the large centers. It was the latter which had shown the most favorable rates of net profit in 1945, due in considerable extent to large profits on securities sold, chiefly United States Government obligations, and to a large expansion in security holdings. It was these banks which were most affected by the Treasury retirement program and by the less favorable market for United State Government obligations.

In 1946, as in each year for a number of years, there have been more banks with satisfactory and high rates of net profit, and fewer banks with losses or unsatisfactory rates of net profit.

In 1946, over 65% of all insured banks reported a rate of net profit after taxes of more than 10% of total capital accounts, as compared with 55% in 1945, 37% in 1943, and 23% in 1938. In 1938, the earliest year for which comparable figures are available, 16% of the banks sustained a net loss, whereas in each of the last three years less than 1% of the banks reported a net loss.

There was little relationship between size of bank and the ratio of net profits to total capital accounts in 1946. This is shown by the distribution of banks according to amount of deposits. The smallest and the largest banks showed somewhat less favorable results than the intermediate groups. About 30% of all insured commercial banks had net profits in excess of 15% of total capital accounts. This proportion was exceeded by banks with deposits of from $1 million to $10 million each; the next smaller and next larger size groups showed a somewhat smaller proportion. However, only 14% of the smaller banks, with deposits of less than $1 million each, and only 13% of the largest banks, with deposits of $50 million or more each, attained such favorable results. Furthermore, almost 25% of the smallest banks, with deposits of less than $500,000, but only 6% of all insured commercial banks, reported net losses or net profits of less than 5% of total capital accounts.

In 1946, increases over 1945 were reported in all major categories of current earnings. Income from loans showed the largest gain, increasing 31% to $951 million, the highest amount in any year since the establishment of Federal insurance of deposits. Income from loans accounted for 33% of total current operating earnings in 1946, as compared with 29% in 1945. This increase in the proportion of income derived from loans represented a reversal of the downward trend since 1942. Income from loans had accounted for from 42 to 49% of total current earnings in each year from 1934 through 1941.

The gain in income from loans resulted both from a growth in the volume of loans and an increase in the rate of income from loans. Average loan holdings were about one-fifth higher in 1946 than in 1945, and the rate of income on loans was about one-tenth higher. For the first time since 1939, there was an increase in 1946 in the rate of income from loans. This reflected some firming of interest rates, but primarily a change in the composition of the loan portfolio. Banks held a higher proportion of high-income-producing loans, such as consumer instalment loans, and a lower proportion of low-income-producing loans, such as those made for the purpose of purchasing and carrying United States Government obligation.

The amount of income on securities increased in 1946, as it has in every year since 1940. From 1940 through 1945, the relative importance of securities as a source of income had increased steadily. However, in 1946 income from securities provided 49% of total current operating earnings, as compared with 52% in the prior year. Interest on United States Government obligations increased from $1,133 million to $1,219 million in 1946. Interest and dividend income from other securities also increased, from $167 million to $177 million.

The average rate of income on securities rose to 1.56% in 1946 from 1.46% in 1945; the rate had declined in every previous year since 1937 when the rate was 2.68%. The average rate of return on United States Government obligations was higher, 1.49% as compared with 1.37% in 1945, reflecting smaller holdings of bills, certificates and notes, and larger bond holdings. The average rate of income on securities of other obligors declined further in 1946 to 2.34%, from 2.52% in 1945.

The remaining portion of current operating earnings — somewhat less than one-fifth — was derived from various sources. Income from trust department and service charges on deposit accounts each accounted for slightly under 5% of total current earnings. These, as well as commissions, fees, safe deposit and real estate rentals, and other income grew at a rate commensurate with the growth in total current earnings.

Four-fifths of the increase in current operating expenses of banks since 1934 occurred in the last three years. All major categories of expense shared in the increase.

Salaries and wages, the most important item of bank expense in recent years, accounted for one-half of the increase in all current operating expenses over the three-year period. The largest increase occurred during 1946. The 1946 figure of $831 million represented a 20% rise from 1945 and a 43% rise since 1943. The increase in the number of employees was a less important influence than higher salaries in causing the larger payrolls.

From 1945 to 1946, the average number of officers and employees increased 5 and 9%, respectively. The average salary of officers increased 10%; that of employees, 13%. From 1943 to 1946, the average number of officers and employees increased 11 and 17%, respectively. During the same period the average salary of officers increased 24%; that of employees 25%.

Interest on time and savings deposits, $269 million in 1946, rose 16% from 1945 and 64% from 1943. The increase since 1943 accounted for one-fifth of the increase in all current operating expenses in the last three years. The passage of the Banking Act of 1933 provided for elimination of interest on demand deposits. Prior to that date interest on demand and on time deposits combined had been the largest single item of current operating expense in most banks, and consistently amounted to about one-third of total current operating earnings. Since 1933, interest on time and savings deposits has been the second largest single item of expense, after salaries and wages. From 1934 through 1943 the amount of interest paid on time and savings deposits declined as a result of the progressive lowering of the rate paid on such deposits. The significant increase since 1943 in the amount paid, in the face of continued decline in the rate, is attributable to the 81% increase in the amount of such deposits outstanding.

Taxes, other than those based upon or measured by net income, and recurring depreciation have fluctuated slightly from year to year, without significant change in level. Other expenses at $526 million in 1946 absorbed 18% of total earnings and have increased in recent years at about the same rate as total operating expenses.

In 1946 insured commercial banks reported profits on securities sold, chiefly United States Government obligations, of $209 million. Although this was 22% less than the 1945 figure, it was significantly higher than the amount reported for the other war years. Profits in 1946 were exceeded in only three other years of the 13 since establishment of Federal insurance of deposits. These profits on security sales contributed materially in 1946, as in 1945, to the high level of net profits.

Recoveries on securities, at $60 million, were less than one-half the 1945 figure. Recoveries on loans, and recoveries and profits on other assets did not differ greatly from the amounts reported in recent years.

In 1946, insured commercial banks made provision for losses on assets by charge-offs or by additions to valuation allowances at the rate of about one-fifth of 1% of total assets or $283 million. Recoveries in 1946 on losses previously charged off, and reductions in valuation allowances, amounted to almost three-quarters of charge-offs. As a result, the rate of net charge-offs in 1946 was only one-twentieth of 1% of total assets. In the preceding ten years, net charge-offs averaged about one-fourth of 1%, and during the first two years of deposit insurance were much higher.

Charge-offs on loans amounted to one-fourth of 1% in 1946. As in the three preceding years, recoveries exceeded charge-offs, thus resulting in net recoveries on loans in each of these years. Charge-offs on securities were no higher than in the preceding year, but recoveries were much lower, so that net charge-offs were significantly higher than in the preceding war years.

Net Profits Before Income Taxes

Net profits before income taxes of insured commercial banks, at $1,226 million, were 2% larger than in 1945, and amounted to 13.6% of total capital accounts. Both the amount and the rate for 1946 were more than double the estimated amount and rate for each of the prewar years since the inception of deposit insurance, except 1936.

Income Taxes

Federal income taxes, at $301 million, were 9% larger than in 1945, and were more than four times the amount paid in 1942. State income taxes at $22 million were virtually unchanged from the preceding year. Federal and State income taxes absorbed 26% of net profits before taxes in 1946, compared with 25% in 1945 and 15% in 1942.

Net profits after taxes, at $902 million, were fractionally below the unprecedented amount reported in 1945. The rate of net profit, 10% of total capital accounts, was higher than in any year, except 1945, since the beginning of deposit insurance.

Notwithstanding the unprecedented growth in net profits over the last four years, the rate of cash dividends declared by insured commercial banks has remained practically unchanged. The $299 million of dividends paid, including interest on capital notes and debentures, in 1946 was 3.3% of total capital accounts. This conservative dividend policy is a continuance of the practice which has been characteristic of insured commercial banks since the banking crisis of 1933. In 1933 and each of the succeeding 13 years, dividends have amounted to less than 4% of total capital accounts. This represents a lower level than in any of the preceding 65 years or which adequate bank records are available. As a result of this conservative dividend policy the proportion of net profits retained for addition to net worth has been higher during recent years than during any previous period. In 1946, such additions to net worth amounted to 67% of net profits, or $603 million. In recent years retained profits have constituted the major source of growth in total capital accounts.

Scores Truman's Budget Statement

(Continued from page 11)

ary New Deal propaganda for more huge appropriations. Yes, the Presidential race is under way, but the people will not stand for any juggling of the Federal financial operations. That hits the pocketbook.

"Mr. Truman, in his political review of the budget, tries to leave with the country an impression that the Congress effected savings of only about $1,500,000,000 in the expenses of the Government. He goes further and attempts to prove that when Congress makes the deficit appropriations he is certain will be made, the saving will be cut to $500,000,000.

"Mr. Truman again refuses to accept Congressional responsibility for raising revenue and appropriating public funds. Last January, he said his budget was the final word, a rock-bottom, hard-boiled budget, which Congress should accept without question.

"Now, in his August statement, he again insists that he is the budget-making power of the government. He simply refuses to accept Congress' cuts, as is evidenced by his open declaration that so soon as the second session of the 80th Congress convenes he will ask for supplemental appropriations that will wipe out most of the savings made. Again he places himself above the constitutional powers of Congress.

"In summary, this is what the first session of the Eightieth Congress did on government expenditures:

"We cut the President's 1948 estimates by $2,766,000,000. We rescinded funds that would otherwise have been spent amounting to $442,500,000. We made recoveries for the Treasury that the President did not recommend amounting over all to $911,700,000.

"This makes a total cut below the 1948 fiscal year estimates of the President's budget of $4,120,800,000.

"In addition, we made cuts that were effective in making savings in the operations of the last fiscal year amounting to $359,740,568. These figures add up to a total savings to the Federal treasury of $4,480,664,303 that the Republican Congress accomplished.

"Mr. Truman, in his budget message to the Congress last January, recommended expenditures for the fiscal year 1948 amounting to $37,500,000,000. That was his "hard-boiled" budget, which turned out to be a padded budget. But that didn't represent all the padding.

"The President is neither fair nor frank with the American people. He bases his whole statement on the premise that his $37,500,000,000 budget submitted last January was the maximum amount sought.

"He insists that it represents the maximum expenditures for the fiscal year and, on that basis, gives the Republican Congress credit for no more than a cut of $500,000,000, a figure arrived at by setting up a billion in supplemental appropriations he says will be necessary early in 1948. These additional appropriations, he says, will wipe out a billion of the savings effected by Congress.

"Now this is all fallacious. The truth of the matter is that the $37,500,000,000 Mr. Truman asked for did not constitute the sum total of his budget proposals. Not by more than $2,000,000,000 does it constitute the total.

"After the budget was submitted, the President made a number of requests for additional appropriations which totaled $2,023,252,216. Thus, his total budget requests went far above $39,000,000,000 instead of the $37,500,000,000 he now tries to make the American people believe was his top figure.

"Thus on the basis of his own recapitulation of estimated revenues and expenditures, the savings made by the Congress is more than $4,000,000,000.

"The solid fact that no amount of bombarding by Mr. Truman and his men can change, is that the Eightieth Congress has made the best economy record of any Congress in a quarter of a century. The reductions we made in the Presidential budget were greater than any Congress has done to a Presidential budget since the budget system was established in 1923.

"We shall insist that the administrative branch come forward next year in a spirit of cooperation for economy and not stubborn opposition as they did during the first session of the Eightieth Congress.

"But with High Tax Harry doing the quarterbacking we have little hope of getting that cooperation. The moral of it all is that when the people, in 1948, elect a Republican President, who will cooperate with a Republican Congress, we will finish the job."

Canadian Securities

By WILLIAM J. McKAY

With the probable consummation of the quarter-century old St. Lawrence Seaway scheme, U. S.-Canadian joint economic planning will have attained new heights. This grandiose project which will constitute a New World "Danube" will bring into being the world's potentially greatest commercial water-route. Reaching from the Atlantic Ocean into the heart of the richest industrial areas of this country and of Canada this vast deep-water sea-lane will forge a still stronger link between the economies of the two countries.

The importance of this project can not be measured solely on its value as a new sea-lane. Included in the overall plan are also schemes for the development of additional hydro-electric power, which will still further stimulate industrial growth especially on the Canadian side of the border. In this connection it is believed that the discovery of the vast high-grade iron-deposits in Northern Quebec and Labrador might turn the tide in favor of the project as a whole. Steel interests in this country are now envisaging the eventual exhaustion of the great Mesabi ore-bodies and are looking to new fields for future reserves. It now appears that the Labrador deposits will ultimately prove to be the world's major source of iron-ore and the materialization of the Seaway plan would greatly assist its exploitation.

There is thus every likelihood that Canada will eventually become a leading exporter instead of an importer of iron and steel. This, however, is not the only field in which the Canadian economy stands to gain as a result of this far-reaching project. It has long been recognized that Canada's greatest potential asset is the tremendous mineral-rich area of the Laurentian Shield.

So far only the outer surfaces of this two million square-mile geological freak of nature has been scratched but this alone has sufficed to make the Dominion the world's leading exporter of base and precious metals. Hitherto the main obstacles in the path of fuller development have been the lack of adequate man-power and the difficulties of transportation. As far as the former impediment is concerned the Dominion is now tackling the immigration problem with commendable energy, and with the expansion of population hitherto virgin areas of the Laurentian Shield will be opened up to civilization. The problem of transportation and communications still remains, but just as the construction of the Canadian Pacific Railway created a new era of economic development, the construction of the St. Lawrence Seaway would have a similar stimulating effect.

A greatly expanded program of exploitation of Canada's enormous natural resources would not only help to solve the problem which faces this country of assuring future reserves of essential industrial requirements but it would also tend to produce a better balance of U. S.-Canadian trade. It would also constitute an important step towards the solution of the greater world problem which has arisen as a result of the universal imbalance of foreign trade. As a direct consequence of Canadian ability to create fresh reserves of U. S. dollars, Canada would be in a position to supplement once more the efforts of this country to sustain the economies of Britain and Western Europe, and thus the project of the St. Lawrence Seaway could constitute a valuable contribution to current plans for the rehabilitation of world trade.

During the week the bond market continued dull and inactive in both the external and internal sections with prices again on the downside. Stocks also declined after an earlier display of strength with the junior golds again displaying the most resistance to the general trend. Speculative interest is now apparently based on individual prospects and not on expectations of any change in the price level of gold. Labrador Mining & Exploration also displayed isolated strength following reports of imminent favorable developments.

Fedders-Quigan Stock Offered at $11½ Per Share

Van Alstyne Noel Corp. on Aug. 21 announced the offering of 100,000 shares of common stock of Fedders Quigan Corp. at $11.50 per share. The issue does not represent new financing on behalf of the company. The company, successor to a business established in 1896, is a nationally known manufacturer of a wide range of heat transfer equipment with about 15% of all auto radiators and 30% of car heater cores installed in new cars made by Fedders. Net profit in 1946 was $902,511.

Edward Johnson Opens

RIVERSIDE, PA. — Edward F. Johnson is engaging in a securities business from offices at 403 Avenue D. In the past he was a partner in Ray, Johnson & Co. of Sunbury.

Roy B. Sundell With Greenebaum Inv. Co.

Special to THE FINANCIAL CHRONICLE

CHICAGO, ILL.—Roy B. Sundell has become associated with Greenebaum Investment Co., 39 South La Salle Street. Mr. Sundell was formerly with the trading department of Thomas E. King & Co. Prior thereto he was with Cayne, Robbins & Co. and Hicks & Price.

Roy B. Sundell

E. F. Hutton Co. to Open in Dallas

DALLAS, TEX.—E. F. Hutton & Company, member of the New York Stock Exchange and one of the pioneer wire houses serving the west, is expanding its facilities to serve Dallas, Texas. Quarters have been leased on the ground floor of the Magnolia Building in which will be established a modern, air-conditioned brokerage office. Private leased wire connections will be maintained with the firm's New York offices.

The firm first opened in Texas in 1935, with an El Paso branch office. The new office in Dallas will have 3,000 square feet of space and will open with approximately 15 employees. It will represent the firm's 22nd branch office. New offices were recently opened in Fresno and Bakersfield, California.

Allan H. Crary, western partner of the firm, stated, in announcing the opening of the new Dallas office: "Decision to open a Dallas office is the fruition of years of planning. The company's partners have had their eyes on Texas for a long time, and the expanding economy and promising future development of Dallas and the southwest made our location in Dallas a logical move at this time."

The office will be manager by Mr. Harold D. McEwen, who has been a resident of Dallas since 1937. Co-manager will be Mr. W. A. Taylor, now manager of E. F. Hutton & Company's Santa Monica, California branch.

Richard K. Hexter With Carter H. Corbrey & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Richard K. Hexter has become associated with Carter H. Corbrey & Co., 650 South Spring Street. Mr. Hexter was formerly President and Treasurer of Investment Fund Distributors.

Stock Trading Corp.

Stock Trading Corporation has been formed with offices at 551 Fifth Avenue, New York City, to engage in a securities business. Officers are Max L. Lipsky, President and Treasurer, and Herbert Silton, Vice-President and Secretary. Mr. Lipsky was previously associated with Joseph L. Dixon & Co. of Chicago.

Reports Record Individual Incomes in 1946

Commerce Department estimates for 1946 per capita income for nation was $1,200, or more than double 1940. Western farm states show greatest increase.

In almost every state total income payments to individuals in 1946 were at a record high, the Department of Commerce reported on Aug. 25. The per capita income for the country as a whole in 1946 reached $1,200, more than double the $575 average for 1940.

For the continental United States, the total income received by individuals last year was more than $169 billion or approximately one-tenth higher than the previous record high of $155 billion in 1945.

Income payments to individuals include wages and salaries, the net income of unincorporated businesses including farms, dividends, interest, net rents, and such other items as social insurance benefits, relief, veterans' pensions and benefits, and mustering-out payments to discharged servicemen. (The Department noted that it has not yet been possible to adjust its State Income Series to the new "Personal Income" data recently issued in the National Income Supplement to the "Survey of Current Business" of July, 1947.)

In the Central, New England, Middle East and Northwest regions, individual incomes in 1946 were 10 to 12% higher than in 1945. In the Far West, Southeast and Southwest, where the war effort had provided the largest income expansion, the gains in 1946 were of smaller proportions.

The largest percentage increases in total income in 1946 were registered by Iowa with a 27% rise, Montana, 20%; Minnesota, 18%; Wyoming, 17%; North Carolina, 16%, and Missouri, 15%. In these important agricultural states a sharp expansion of farm income during 1946 was primarily responsible for the large advances in total income payments.

In Florida, Louisiana, and Mississippi, where income payments in 1946 failed to rise, and in most states where the rise was considerably less than the national average, the lag is attributable to the curtailment of some important war activity—such as shipbuilding, aircraft production or the concentration of military and naval establishments — that had become a major source of income.

Both nationally and on a state basis the rise in income payments last year over the preceding year was due to sharp changes in the economy as a result of the transition from war to peace. Large gains in trade, service, and agricultural incomes, in payrolls of nondurable goods manufacturing industries, and in veterans' benefits and pensions more than offset sharp decreases in payrolls of durable goods manufacturing industries, military payments, and Federal civilian payrolls.

From 1940 to 1946 the largest relative income gains occurred in the South and West. In all Southern and Western states except Montana, Wyoming, and Oklahoma, the rate of income growth in that period exceeded that for the country as a whole. On the other hand, in every Middle Eastern and New England state, income expansion over this period fell short of the national average.

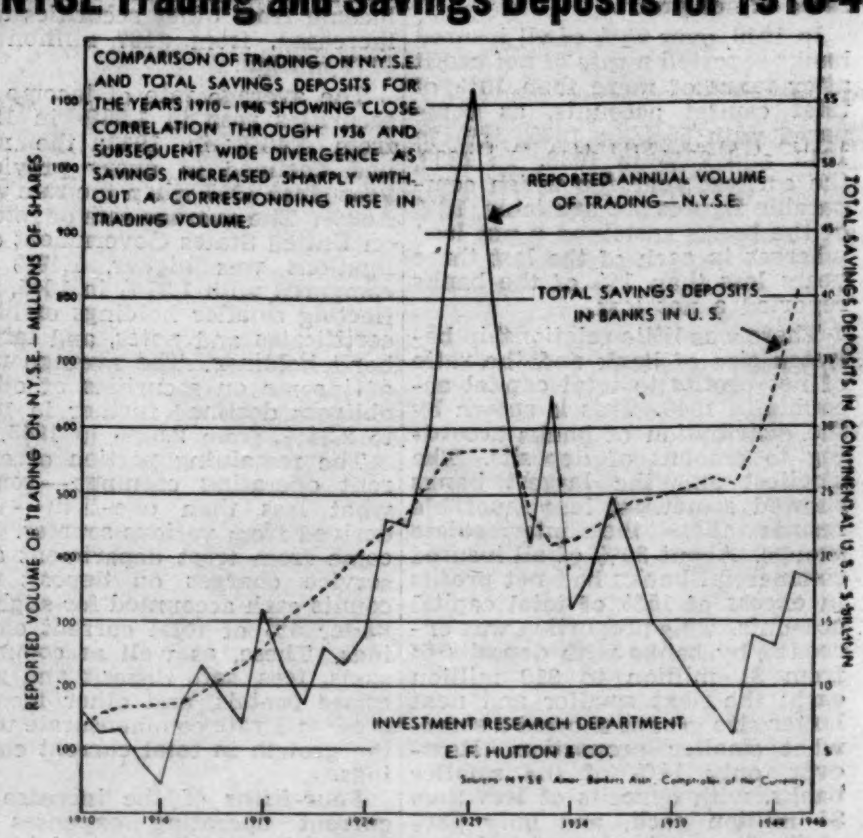
Total income payments in the four Southern and Western regions rose 159% from 1940 to 1946 while in New England and the Middle Eastern states the gain was only 97%. These regional income shifts over the war period are an acceleration of trends in evidence from 1929 to 1940.

In almost all states per capita income last year exceeded wartime highs. In three-fourths of the states, the per capita income was at least double the 1940 level. In a number of agricultural states in the Northwest and South, the average income of individuals was two-and-a-half to three times as large as the 1940 average.

By states, per capita income varied from $555 in Mississippi to $1,703 in Nevada. Ranking next in order from Nevada were New York with $1,633; District of Columbia, $1,569; California, $1,531; New Jersey, $1,494; Delaware, $1,493; Illinois, $1,486, and Connecticut, $1,465.

Most strikingly revealed in the 1946 per capita figures is the concentration of low-income states in the South. In 1946, all 15 Southern states were among the 16 states in the nation with the lowest averages. Although the difference in the average income levels between the South and the rest of the country has been reduced since 1929, per capita income of the Southern States last year was nearly two-fifths below the average for all states outside the South.

NYSE Trading and Savings Deposits for 1910-46



ITO Charter Drafted

So-Called Bill of Rights for International Trade, completed at Geneva, Switzerland, by representatives of 17 nations, will be submitted to a World Conference at Havana in November for approval.

Winding up a conference on Aug. 20, which began in October of last year, the representatives of 17 nations, which met in Geneva, Switzerland, to draw up a charter for the International Trade Organization, sponsored by the United States, Great Britain and other nations, have completed a tentative draft comprising 13 chapters to be submitted to a World Conference at Havana, Cuba, scheduled to convene on Nov. 21, 1947. The draft is the result of plans, conferences, and negotiations that have been taking place in New York, London and Geneva for a period extending over more than one year. Notably absent from the negotiations was Russia, which sent no delegates to Geneva and which has given no indication that it will be represented at the Havana Conference next November.

The 4000 word document, constituting the complete tentative draft of a charter, is characterized by Dr. H. C. Coombs of Australia as merely "a skeleton." He added "it remains for the governments of the world to put flesh upon its bones and breath into its nostrils." The chapters of the proposed charter cover subjects such as "Full Employment and Economic Activity"; "Economic Development"; "Commercial Policy"; "Restrictive Business Practices"; "Inter-Governmental Commodity Agreements"; "Settlement of International Commercial Disputes," as well as other special or general provisions relating to international commercial relations. There is a clause which provides for a compulsory review of the charter every 10 years.

Among the important items in the document is a general ban imposed on the use of quantitative restrictions on imports. Exceptions during the post-war transition period are allowed, as well as exceptions necessitated by the operation of domestic programs for stabilizing farm prices.

The circumstances under which a country in balance-of-payments difficulties may be exempt from the general ban on the use of quantitative restrictions are defined. In the last analysis the decision as to a country's right to use such measures, including in extreme cases their use in a discriminatory manner, will be made by the International Monetary Fund.

The use of subsidies in international trade is authorized, provided such subsidies do not result in the sale for export at a price lower than the domestic price. This is the only section on which the United States was defeated. If finally adopted it would require a change in the system of agricultural export subsidies.

State trading enterprises under the proposed rules are committed to follow commercial principles in buying and selling and to avoid discrimination. A new clause requiring that state enterprises offer private enterprise a fair opportunity to compete for the purchases and sales of state enterprises has been added to the London draft. The article governing the conduct of complete state monopolies of trade has been dropped, since no such case exists outside the Soviet Union.

The charter aims to prevent practices on the part of private business that restrict trade or foster a monopoly.

The condemned practices include price fixing, exclusion of enterprises from markets, allocating customers, fixing production quotas and suppressing technology.

Sees Consumers Getting More Goods

R. C. Patch, Chairman of a business survey by Chicago Purchasing Agents Association, reports faster deliveries but with upward trend of prices.

Summarizing a report of the Business Survey Committee of the Purchasing Agents Association of Chicago, R. C. Patch, its Chairman, states that inquiry among members show that in July 40% reported lower backlog of orders, 57% faster deliveries and 64% higher prices. This, Mr. Patch concludes, "should mean that consumers are getting more and more of the things they are waiting for—at least those that still can afford them are."

"Generally faster deliveries," continues Mr. Patch, "which probably also mean more consistent deliveries of some of the critical items, apparently are keeping inventories evenly balanced at the current levels. Also, better deliveries are, no doubt, made possible by consistently high employment and production neither of which showed any tendency to decline from levels which we know to be at or near the highest ever attained. Prices are certainly on the increase again when we see that in just one month they have gone up for ⅔ of those responding to the survey."

Regarding price trends, Mr. Patch stated that "100% more members report they paid higher prices last month than those reported in the month of June, and this figure of 64%, is the highest since last March when the previous price spiral was at its peak.

"People formerly buying for shorter periods, i.e., hand to mouth to 60 days, are coming into the 90-day bracket. This perhaps means that confidence has returned and that the present price structure will not topple at least for the next few months.

"As to the special question regarding a possible recession this year due to consumer resistance at higher price levels, the majority opinion is voiced by one member who says: 'No, not until later. The fools want to spend their money.' Several members said they thought the downturn would come next year with special emphasis laid on the first quarter of 1948."

Mr. Patch concludes that "with prices going up again and sufficient confidence returned to somewhat lengthen future buying periods, the recent fear of recession seems to have been pushed in the background. Our July report indicates business will be good at least for the near term, probably as long as products continue to move at higher prices. However, let us not forget, as buyers, that too much price inflation must eventually place many products out of reach and bring on the sharp downward reaction all business is anxious to avoid."

New Dan'l Rice Branch

WILKES-BARRE, PA. — Daniel F. Rice and Company, Members New York Stock Exchange, announce the opening of a branch office in Wilkes-Barre under the direction of Charles D. Wesley. The new office will be located in the Second National Bank Building.

Foreign Trade, Loans and Prosperity

(Continued from page 2)

about two years, while Latin American balances, reduced to probably not more than $2 billion would be exhausted within one year. Will the International Bank or the International Monetary Fund, the Export-Import Bank or private capital come to the rescue?

Steps Being Taken

In this connection, it is interesting to note that the International Bank (which already had loaned France $250 million) has recently granted the Netherlands $195 million on generally similar terms. The Marshall Plan, of course, is being shaped so that it is hoped that it will be determined how much the Western European countries, including Britain, can help themselves and each other, and how much they feel they will need from us to proceed with recovery. Increases in their production enabling greater exports to us would be important. Congressional action under the Marshall Plan is doubtless still some months away. Premier Attlee's new program indicates an intention to cut Britain's imports from us by several hundred million dollars, and also to try to ease certain onerous conditions under our loan to Britain.

Proposed Remedies Vary

Former President Herbert Hoover has been recommending a variety of remedies against political and economic collapse which is freely and generously predicted. Prophecies in the realm of economics and politics are admittedly hazardous. Too many factors which cannot possibly be computed mathematically, must be studied. Opinions expressed, plans evolved or remedies proposed may be basically sound at one time, but may be wholly unsound at a later date, because of the speed with which events are moving.

Although the former President warns that extensive financial aid by the United States to the rest of the world could bankrupt the nation, it should be remembered that the assistance which the government proposes to render, directly or through various agencies, will not take the form of a transfer of American wealth to foreign countries. "Foreign" loans or "foreign" credits extended by the United States will, provided they are of the constructive type, lead to greater business activity and greater employment in the United States, at the same time aiding the borrowing country to improve its own economic status.

Sound Loans the Test

Foreign loans per se never had led and never will lead to impoverishment of lenders, unless the proceeds are squandered or employed non-productively. On the contrary, refusal to assist in the rebuilding of other nations or to participate in the economic and financial activities of the world, may and will cause difficulties. A comparison between conditions which obtained in the '20s, when we were lenders, and those which were experienced in the '30s, when in general we were not, should prove illuminating.

What is far more disquieting is the fear the international crises might render inadvisable or futile any attempt to effect world reconstruction. In consequence, it would perhaps be wise to delay the issuance, on a large scale, of international loans until the existing friction is removed, and the fear which appears to have taken hold of the peoples of the world that a new cataclysm is imminent or inevitable, is eliminated or reduced to a minimum.

It is generally agreed that international debts can be met by the debtor through
(a) the shipment of gold
(b) the shipment of goods
(c) the rendering of services.

Since the United States owns or controls the major portion of the world's gold, it is obvious that debtors cannot avail themselves of this method. The shipment of goods is rendered difficult through prohibitive levies on merchandise produced or manufactured advantageously by the debtor. Creditor nations should take into account this factor and revise their tariff policies in such manner as not to impede the debtor's problems incident upon meeting his international commitments.

Through the enactment of immigration laws and the continued ban upon immigration, a large number of debtors were deprived of one of their most important sources of dollars — remittances by emigrants to their countries of origin. It is of interest that prior to the war, remittances to Italy by Italian residents in the United States or Americans of Italian descent, totaled between $50 and $60 million—an amount equivalent to 5% on $1.0 or $1.2 billion. The existing statutes have greatly impaired this source of dollar exchange to which debtors might have recourse.

Conclusion

America's program to aid in world construction is sound on purely economic grounds and desirable for humanitarian reasons. However, in order to achieve concrete results, steps should be taken to eliminate or revise such existing legislation (tariffs, for instance) as may tend to impair or destroy the ability of the debtor to meet his engagements, and to pass new legislation required to aid international reconstruction. With intelligence and goodwill, the program to aid world reconstruction should achieve success. While Russian cooperation would be of great help, success is attainable if the nations have to go on without Russia, as they have often had to do in the past.

UNITED STATES EXPORTS AND IMPORTS
(By selected periods and regions—in million dollars)

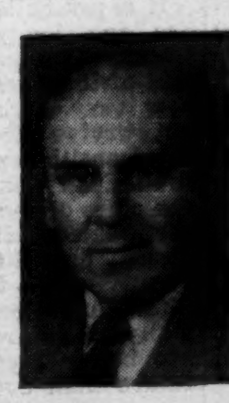
	*1947	1946	1936-38 (Average)	1929	1913
U. S. Exports to					
Europe	5,730	4,098	1,243	2,341	1,499
Latin America	4,290	2,222	545	973	339
Far East	2,270	1,460	590	835	208
Canada	1,970	1,475	462	961	409
Africa	310	488	128	131	29
Total	15,070	9,743	2,968	5,241	2,484
U. S. Imports from					
Europe	740	796	709	1,333	865
Latin America	2,310	1,825	573	1,107	445
Far East	1,370	1,090	788	1,336	316
Canada	1,000	918	352	514	143
Africa	290	307	66	109	24
Total	5,710	4,936	2,488	4,399	1,793
Total U. S. Trade with					
Europe	6,470	4,894	1,952	3,674	2,364
Latin America	6,600	4,047	1,118	2,080	784
Far East	3,640	2,550	1,378	2,171	524
Canada	2,970	2,393	814	1,475	552
Africa	1,100	795	194	240	53
Total	20,780	14,679	5,456	9,640	4,277
U. S. Favorable Balance with					
Europe	4,990	3,302	534	1,008	634
Latin America	1,980	397	†28	†134	†106
Far East	900	370	†198	†501	†108
Canada	970	557	110	447	266
Africa	520	181	62	22	5
Total	9,360	4,807	480	842	691

Source: Department of Commerce. *Estimated on basis of figures available for the first half of 1947. †Denotes unfavorable balance.

No More World Bank Bonds This Year

John J. McCloy, its President, tells news conference Bank has half billion dollars for lending. Fears no British collapse and would make loan to England.

At a news conference in Washington on Aug. 26, John J. McCloy, President of the International Bank for Reconstruction and Development, said the bank does not intend to borrow more money through issuance of securities this year "unless unforeseen developments occur." The Bank now has about $500,000,000 in United States dollars alone available for lending, and this sum is "adequate for immediate purposes."



John J. McCloy

McCloy told reporters that the bank would consider making a reconstruction type loan to Britain but added Britain has not given any indication that such loan is desired.

He explained the British are "a sturdy people with good business sense and their internal budget situation is good." "History shows it is unwise to write off Britain quickly," he stated.

T. J. Kilkenny Is Now With R. Showers

Special to THE FINANCIAL CHRONICLE

CHICAGO, ILL. — Thomas J. Kilkenny has become associated with Robert Showers, 10 South La Salle Street. Mr. Kilkenny was formerly for many years with Rogers & Tracy.

With Calvin Bullock

Special to THE FINANCIAL CHRONICLE

DENVER, COLO. — Clyde E. Smith has been added to the staff of Calvin Bullock, Colorado National Bank Building.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government securities markets are still adjusting themselves to the September financing, although the rate of the uptrend has subsided somewhat after the initial rush to get into securities before prices went higher. . . . There is nevertheless a good demand around for all issues despite the fact that a part of the funds that were waiting the terms of the refunding have now been put to work. . . . The taxable bank-eligibles were again led by the longest 2½s and 2¼s, along with the intermediate-term 2s. . . . The longest partially exempts are still the pace-makers in this group with the 2¾s due 1960/65 the best acting issue. . . . Switching of holdings in the eligibles is by far the most important factor in these securities. . . .

The ineligible issues have had a better tone with a tendency to advance somewhat since the authorities have not been doing as much selling as in the past. . . . The longest 2½s have shown the way on the upside followed closely by the shorter maturities in the group. . . . Those that believe the outstanding restricted bonds will be helped by the new issue have been large buyers of the longest 2½s. . . .

Despite the strength in the government securities markets, which was brought about mainly by the low coupon short-term refunding, there is appearing now a feeling of caution among some investors. . . . There is nothing too tangible yet to tie this attitude to, and the numbers following it are not of sizable proportions . . . Also there is no denying that some very important sizable portfolio rearrangements still have to be made. . . . This should have a favorable effect upon prices and activity in the longer-term higher yielding securities. . . .

CAUTIOUS

Some of the portfolio managers are, however, giving more than passing consideration to the general level of government security prices. . . . It is being pointed out that the market has had a fairly substantial rise in the past fortnight, sufficient in some cases to take prices of certain of the long-term obligations to new highs for the year. . . . At the moment there are ample reasons for the upward trend in prices of Treasury obligations but at the same time there are many uncertainties that cannot be resolved immediately. . . . The Treasury, since last April, has sold about $1,400,000,000 of marketable securities in order to keep prices within limits that were considered desirable to the money markets. . . . The last two weeks have wiped out practically all that was accomplished during this period in prices of the eligible issues. . . .

While it is believed that the powers that be are not too heavy in bank securities that can be sold in the open market, there is, however, no feeling around that the authorities have lost control over the market action of the eligible issues. . . . There are still many devices that can be used to put a ceiling on quotations of these securities. . . .

Accordingly, at these levels some investors are not prone to make too heavy commitments especially when it is noted that not so long ago certain of these bonds made new lows for the year. . . .

INTEREST RATES STUDIED

Another element that is being considered is the trend of interest rates. . . . Short-term rates have been unpegged and the level is rising. . . . While it is believed this will be a slow gradual process, an element of uncertainty has nevertheless been injected into the money markets because the money managers could be more aggressive in their policies and bring about changes faster than might be expected if there be need for such action. . . .

Even now there is plenty of guessing as to what might take place on Oct. 1, whether there be a nine-months ⅞s or a 1% issue. . . . The extent of the rise in short-term rates as well as the rapidity with which it takes place are coming in for more discussion because these will have an important influence upon the level of government security prices. . . . While stability in the market for Treasury issues is essential to the government as well as investors, rising quotations for bank issues would be a definite threat to such a condition. . . .

There seems to be little doubt that further spurts on the up side by the bank issues will meet opposition from the powers that be. . . .

COMBATING INFLATION

The new issue of non-marketable bonds is another factor that is being viewed with importance by money market followers. . . . Some believe that the inflation forces must be offset by more vigorous action by the monetary authorities and they feel that the forthcoming issue is the start of a debt management policy that will attempt to curb the uptrend in prices and consumers' loans. . . . This could be brought about by curtailing bank credit. . . . The previous action of the powers that be was to retire bills and certificates in order to tighten the credit base. . . .

Although the gold and currency factors make credit limiting more difficult, the sale of issues to non-bank investors would provide funds that could be used to retire bank-held issues and in that way cut down the loaning ability of the deposit institutions. . . .

STRONG DEMAND SEEN

While it is being pointed out by some money market specialists that the outstanding restricted bonds are more attractive than the proposed non-marketable issues, there is no doubt that the demand will be sizable for the new obligation. . . . Trust funds, according to reports, will be very heavy buyers, since they like this type of issue. . . .

Commercial banks with savings deposits, particularly smaller institutions, will also be important buyers, despite the fact that mortgages are being taken in larger amounts by these banks. . . . Insurance companies and savings banks will also buy it. . . .

The absorption of a fair amount of the non-bank institutional demand by this new offering could do much to ease the problem of the authorities in controlling prices of the restricted issues.

What Is the Future of Air Transportation?

(Continued from first page)

I make no claim as an expert analyst of this rapidly changing and developing industry. It has been most appropriately said by someone in the industry that the only monotonous thing about the air transportation business is the continuous changes taking place in it.

Any new industry, I suppose, but particularly aviation with all the glamour of its early stages, has attracted ambitious youths, as well as many who are not too ambitious and not very young. Too often I think, for the good of aviation, these newcomers—who are most certainly welcomed by the old guard—have practically, overnight, mastered the experience of some 20 years in the industry and unwisely undertaken to inform the public, with unerring assuredness, exactly what made the business tick in the past, what its present ailments are, and precisely what the infallible cure is.

Erroneous Analytical Statements

Many of the analytical statements and comments prepared and circulated by financial institutions, investment counsel organizations, brokerage houses, financial publishers, etc., concerning the air transportation industry, are just so much bunk. Either they do not take the pains to find out the real story from the very inside or they are incapable of understanding the various issues which confront the industry or to consider the good points inherent within it. Very often this type of analysis does a great deal of harm to an industry and it is particularly true of air transportation. Many articles and statements persistently appear in various publications as gratuitous offerings of not-too-well-informed public officials and self-styled experts who, even though they have the best interests of air transportation at heart, too frequently defeat their purpose by an inexpert and unsound approach to the problems upon which they expound. We must not forget that there are those groups whose motives are not so pure and who seek public expression for the avowed purpose of retarding or obstructing the development of air transportation for purely selfish motives. Despite all of this, aviation and air transportation have long since crossed the threshold of uncertainty and they are here to stay and to develop under conditions which offer opportuntiies seldom, if ever, equaled in the history of American enterprise. My hope, and my advice, is that the public will choose wise and unbiased counsel now in forming its judgment of air transportation prospects and that it will become neither fanatically optimistic nor adversely disillusioned by unqualified and insincere informers.

It is my belief that the market has too long oversold airline stocks. Obviously there are certain airlines whose situations are now very critical and they may not survive the closing months of the transition period with which the industry has been faced since the close of the war. Most of the certificated airlines, however, have already passed the doubtful stages of survival, if they ever had one. These have profited in a great many ways from adversity and are better prepared to face the future than ever before.

Airline Development

The air transportation industry of this country was concived and developed, up until a few years before World War II, largely by pilots who were trained in World War I. Only a few far-sighted financial interests and a handful of philanthropists and industrialists participated in the financing of the industry in the early stages of its development. Most airlines, up to the beginning of World War II, had found it consistently necessary to plow back every cent of earnings into the development and acquisition of new, improved and more economical aircraft of a type having higher payload capacity. Then came our entry into the war and every certificated airline, including Colonial, was required to turn over a very substantial portion of its equipment to our military services. Colonial contributed the highest percentage of total-equipment-owned of all the airlines in the United States —6 of its DC-3's out of a total of 8 and at a time when there was the greatest public demand ever before experienced for its air transportation service.

True, all airlines were compensated for this aircraft. To further the program, most of them took on diversified war activities for the Government such as aircraft modification, pilot and mechanics training programs and military cargo transportation services. These activities were akin to the business of air transportation but they were nevertheless, considerably different in technique. Most of the airlines found it necessary to increase substantially the number of their employees and to take on personnel with a higher degree of technical skill at a much higher wage scale. Also, their expanded activities necessitated greater decentralization for the different types of military activities at considerably greater overhead costs. On the whole, however, the airlines were reasonably and adequately compensated under the military contracts and their revenues per-unit-of-equipment-remaining-in-commercial-airline-services reached an unbeliable all-time peak. Nevertheless, at the same time the costs, labor, parts and material mounted rapidly while their tax bills reached an all-time high. The plain and unadulterated truth is that the industry, at the time, simply was not geared nor sufficiently experienced for the war-time tasks it undertook, much less for the transition back to normal airline operations which followed the war and the cancellation of war contracts.

During the lush period of an industry that had always before had to scramble—so to speak—to meet next week's payroll, it is not astounding that there were some extravagant indulgences. Such extravagances as excessive inventories of both parts and equipment probably are responsible for the financial difficulties with which two or three of our airlines are faced today. Never before had the airlines been concerned with any problem of high earning tax brackets, etc., and when the war contracts were cancelled, new problems faced a new industry with new experiences and obviously some of them reacted too slowly, perhaps, to the realities of the situation. Under the circumstances it was inevitable that there would be some casualties in the air transportation business as an aftermath of war activities just as there were bound to be in other businesses.

Optimistic Trends Outweigh Adverse Factors

I am sure, however, that if you, as a group of analysts, will pause now to take stock of the situation, you will agree with me that the optimistic trends in the air transportation industry today far outnumber and outweigh the adverse factors. Let me review for you briefly the basis for my judgment. At the close of the late war there were but three types of aircraft available, in sufficient numbers, which the air transportation industry could acquire for the purpose of supplementing their fleets to meet the vastly expanded requirements of an air-minded public. These were the DC-3, the DC-4 and the Constellation, none of which were economical at prevailing cost levels, unless they could be operated at exceptionally high load factors. The market for the military version of these airplanes was controlled by the War Surplus Administration of the Government and were available at what seemed to be moderate and economical values. Undoubtedly, I think, this fact induced some airlines to overequip with certain types of planes which were not economically suited for short-haul operations or for the traffic requirements of some marginal routes which these air carriers had in operation. The really damaging factor, however, came about by reason of the excessively high modification costs of these types of aircraft for commercial operations. The trend of the times was toward higher prices and higher wage levels and most airlines found that when they finally got what appeared to be a cheap military airplane, modified for commercial operations, it stood them on their books at a price equal to or greater than the amount for which the aircraft could have been acquired new, and they still had an obsolete plane on hand. It has been only during recent months that any modern, economical, commercial aircraft has become available for replacement of this obsolete equipment. I think you will find that the dismal-appearing earnings statements of most airlines during the past eight months are traceable, in part, to the book losses incurred by the various airlines through the sale of these airplanes in a thoroughly saturated market. For example, modified DC-3 airplanes which were carried on the books of some companies at from $100,000 to $150,000 each, are now going begging at $20,000 and $35,000 when offered for sale. Much of this type of loss has already been absorbed by most airlines and they now face the future of expansion with new and more economical equipment which is becoming available in larger numbers daily and, by and large, the airlines will have replaced all obsolete models within the next three years.

There is another factor—greatly overpublicized—which has been given as the principal ill of the airlines during the past two years —Accidents! The effect of accidents is usually seized upon by those seeking a ready-made excuse for diminishing airline revenue. Obviously accidents and weather are ever present factors with which the air transportation industry is now, and will for years, be plagued. All transportation mediums will inevitably suffer accidents and their resultant effects. The thing which has accentuated the effect of accidents in the air transportation industry recently has not been so much the accidents themselves but the over-emphasized publicity which followed. What parallel can you find in ground transportation that can compare with the crash of a single plane carrying commercial passengers? For example, a recent airplane crash at LaGuardia Field was followed immediately with two Congressional investigations and CAB hearings which held the headlines of our nation's publications for months and all the gruesome details, including front page pictures, were displayed to the public in the worst possible light. By contrast, consider a

boiler explosion on a locomotive which causes the death of a number of persons. Generally speaking, it would be unusual if you were able to find an account of that accident unless you examined carefully the fine print obituary column in a local newspaper. There will always be accidents in transportation systems. In air transportation there will always be a never-ending need for technical delepoment of ground-aid systems for landing and takeoff procedures designed to minimize the possibilities of accidents. The airline industry has never been financed for the purpose of bearing the load of all such developmental costs and it should not be expected to do so. We happen to be going through a pre-election period of an economy-minded Congressional trend, but I am sure that there is no dispostiion upon the part of Congressional and Governmental authorities to diminish the aid necessary for the air transportation industry to survive this critical period. The Federal Government must continue to support the development of new aircraft and expand, rather than retard, its investment in airway-aids and navigation-controls in the interest of the National Defense, if for no other reason.

Now, let us look further at the general situation more objectively for a minute and appraise a few of the facts on the credit side of the airlines ledger. Last year, which admittedly was not a good one for the air transportation industry, the airlines of the United States had scheduled revenue miles equal to 28.76% of the total Pullman passenger miles and, in December of 1946, reached a peak of 44% of Pullman passenger miles. That, I submit, indicates a very commendable penetration of the luxury travel field. With respect to air express and air cargo, the industry has barely scratched the surface. Last year, air express equaled only 3.2% of the railway express volume so in that field alone there exists a tremendous potential of new business. In 1946, airline passenger revenue amounted to $275,000,000, while air express revenue amounted to $13,500,000. The railway express volume was $416,000,000 with a per shipment average of only 56 pounds. Certainly no one could ignore the potential field in air express which the airlines have to exploit just as soon as equipment can be designed for that purpose than can be operated on an economical basis.

Among the adverse factors which our industry is today facing is one, in particular, which is by no means peculiar to the air transportation business alone. It is well known that the trend of the last year toward ever-increasing living costs has had its psychological effect upon a travel-minded public. Higher rents and grocery bills leave an indelible impression on people, generally. Naturally, Colonial's business has been affected by this factor because of the high percentage of services which it performs to such resort areas as the Thousand Islands in Northern New York State, the Canadian Laurentians, Lake Champlain in Vermont, and to Bermuda. It has been a perfectly natural thing, but certainly only temporary, that our patrons have become economy-minded with the exorbitant increase in living costs and have shortened their vacation periods as well as the length of the journey to recreation areas. However, I find no indication that any great number of our resort travelers are financially unable to continue their recreation habits. They have simply slowed down temporarily to take stock of the situation and what we have lost in resort travel, I firmly believe will be more than made up in commercial travel as soon as there is the slightest break in the high priced trend of commodities. There seems to be a tremendous pent-up demand for almost everything including air transportation and I look forward to the future with the greatest optimism.

Colonial Airlines

Now let us look at Colonial Airlines, the oldest international airline in the world. It operates through some of the toughest weather known to aviation and yet over the last 17 years, going on 18 now, it has built up an unsurpassed safety record of which it is justly proud. Colonial Airlines in 1938 was a hodge-podge extending from New York to Montreal. The air mail contract held with the United States Government ran from Albany to Montreal and did not extend on into New York. When I took over Colonial Airlines, it had one employee—a bookkeeper. It had no airplanes, no pilots, no stewardesses, no mechanics and no sales force. All of these things were hired from American Airlines when, and if, needed.

From that meager line extending from New York to Montreal—a distance of 335 miles—Colonial is today a system with a total of 2,989 miles. This growth has been achieved through sweat from the brows of the employees of this line. We are only now consolidating our positions and praying that the Civil Aeronautics Board will go yet a little farther to connect up the lines so that we can get the maximum of utilization from the equipment which we own.

As you may see from the maps, the domestic lines of Colonial are very much like an inverted U, one leg of which rests on New York, the other on Washington, D. C. In the north, one end of the U is at Ottawa, the other at Montreal. Obviously, we must have a connection between Washington and New York. If you will look at the map, you will see that we have also applied for a route from New York connecting with Route 71, either at Binghamton or Syracuse, on to Rochester and Buffalo, New York. If this route is granted to us, it will make that portion of Route 71, extending from Syracuse to Ottawa, a most profitable one. The people in this section of the country do their business with New York City. They are not interested in going into Pennsylvania or into Washington. They want to come into New York. When we originally made application for this route, we asked to be connected with New York but the Civil Aeronautics Board did not see fit, at that time, to grant our application for the leg from Syracuse or Binghamton to New York. The result is that the route from Syracuse to Ottawa has been of little use and has been a source of considerable loss to the company itself.

The status of the cases mentioned is simply this: The hearings have been held before the Examiner; all of the briefs have been submitted; the Examiner has rendered his recommendations and among them is a recommendation that Colonial be extended from New York to Washington and that we be connected between New York and Route 71 either at Wilkes-Barre-Scranton or Syracuse. The case has been argued before the Civil Aeronautics Board itself and we are awaiting a decision. What this decision will be, we do not know but we are most hopeful because we firmly believe that the CAB is seriously and courageously seeking to solve the problems of the airlines of the United States. It is self-apparent that these connections are required in order to make it possible for the management of Colonial Airlines to obtain efficiency of operation through the utilization of equipment. Besides, the traffic demand requires additional service in those places to which we have made application.

Should we be connected between New York and Washington, it will permit Colonial Airlines to fly from New York to Philadelphia to Washington to Bermuda and this, in itself, will be a tremendous source of revenue.

Colonial has many other applications pending. They have not progressed far enough for us to voice any hopes or opinions as to the likelihood of action by the Federal Government. All of them are designed to increase the efficiency of our operations by giving us a well-balanced air transportation system. If we are granted the lines which have been recommended by the Examiner in the Middle Atlantic States Case, Colonial will find itself, for the first time in its history, a well established airline and with the utilization of equipment which it will be able to get, it is bound to be a very substantial profit-making company.

Opportunities in Air Line Stocks

You men are analysts and you must be good or the companies who hire you would not have you in their employ. I do not claim to be an analyst but I have had a great deal of experience not only in air transportation but also in finance. I believe some of the best opportunities in the present stock market are to be found in airline stocks. I do not believe that they are going to skyrocket in a few days of a few weeks but, I do firmly believe that for speculative capital seeking a place to rest and increase over a period of time, there is no surer place than in air transportation companies, carefully selected. Airlines cannot be judged from the outside. They must be studied from within. I say this only because I remember buying American Airlines at $1 a share. Very fine brokers told me I was crazy. That stock has since sold up to $200 for each share for which I paid $1. I remember, also, taking over Central Airlines just 24 hours before it was to stop operations. The stock cost me nothing. Everybody said I was crazy—perhaps I was—but the fact is that I kept it for 15 months and it paid several hundred thousand dollars profit to me for the labors put forth. In 1938, I took over Colonial Airlines. It was selling for much less than $1 a share and nobody wanted the stock. Since that time it has sold up to, I believe, some $43 a share. I think this is giving the stockholder a very nice run for his money. And yet in 1938, and for some time thereafter, nobody wanted to buy Colonial Airlines. I will tell you why I believe the airlines are a good speculation and, what is more, for money which is not immediately needed, I think it can even be called an investment.

Since the dawning of time, man has had a dream. It made no difference whether he was walking along the seashore; whether he was climbing over the rugged rocks of mountain passes; whether he was riding a camel across the desert wastes whether he was in a rowboat trying to get from one place to another or in a canoe trying to paddle his way up or down primitive streams, he had a dream—just one *really* great dream. Later when there were sailboats, he still had this dream; and later still when steam had been harnessed and there were railroads he continued to dream. What was that dream? That dream, gentlemen, was for the ability to fly. That was the acme of transportation. From the beginning, every mode of transportation knew that one day it would be succeeded by the ultimate in transportation—flying! That was the dream in the minds of men. We have reached that dream today and I have found no individual who has any thoughts over and beyond the art of flying. For the first time in any industry, we have the ultimate. There is no new invention that is going to take the place of flying; there is no new form of transportation about which to dream. There may be improvements in the art of flying but it still will be air transportation. When you find an industry of that sort, isn't it a pretty good place to put some of your money? You know that whatever may come, man is going to continue to fly. Gentlemen, flying is here to stay! Whether or not that is a generally recognized fact, I question whether any man acquainted with transportation world, for a moment, argue that point.

Summary

To summarize, I would say that the airlines of this country, some months past, weathered the critical point of the transition period and they are now definitely upon an upward surge which the public has been slow to realize. What the industry needs most is now, modern, economical airplanes. Such aircraft, I am sure, is to be found in the new DC-6s, Constellations, Convair 240's, Martin 202's and in the new Boeing designs. As I pointed out, most airlines, and I can speak authoritatively for Colonial, have already disposed of enough of their obsolete aircraft to meet the conditions of the times and have already absorbed book losses incident to this necessary transition from the old to the new and are now preparing to replace their fleets but with greater wisdom and prudence than has been exercised in the past.

May I leave a final thought with you regarding Colonial Airlines? In the past Colonial has had no winter flying routes; no place to make money during the winter months. Now we have Bermuda—from New York to Bermuda and from Washington to Bermuda. The heaviest seasonal travel to Bermuda is in the winter time, so we now have a place to give service and a chance to make money during months which heretofore have been our heavy losing period. In past years, we came up to March, with a heavy handicap in the shape of deficits. With the Bermuda route, this will no longer be the case. We will go into the year 1948 with assurance that we have, at last, an opportunity to equalize our income over the year; we will have no great losses to overcome when the heavy domestic traffic begins again.

I hope I have instilled in you, in some small measure, the faith and the optimism with which I am filled and that in your analyses of the future of air transportation you will be able to detect and publicize some of the pertinent factors which I have endeavored to direct to your attention here today.

Gentlemen, I thank you.

Denmark Gets $40 Million From World Bank

On Aug. 22, it was announced that the loan of $40 million, under contemplation for Denmark, was granted. This is the third loan granted by the International Bank, France and the Netherlands already having received $250 million and $195 million, respectively. The Denmark loan is for the purpose of hastening economic recovery in that country by enabling the importation of farm and textile machinery, machine tools and trucks. The loan will earn an interest rate of 3¾% with an additional 1% annual commission, and will mature over a 25-year period. In announcing the Denmark loan the Bank issued the following statement:

"The loan is designed to hasten Danish economic recovery by making possible imports of agricultural and textile machinery, machine tools, trucks, steel products, textiles and chemicals. With its national budget in balance, production increasing and wage levels under control, a degree of economic stability appears to have been reached and Denmark is in a position where the assistance afforded by the Bank's loan can become quickly effective. The loan constitutes approximately 8% of the contemplated capital expenditures to be made by Denmark during 1947-48, the great bulk of the reconstruction effort depending upon private enterprise and financing. Under the Loan Agreement, the Bank will be furnished with full informatioin concerning all goods to be purchased with the proceeds of the loan and their utilization and will satisfy itself about the end-use to which all purchases are put.

"Before the war, Denmark had never defaulted on any external debt. During the German occupation, with most of its foreign assets blocked, Denmark continued full interest payments in the United States, Switzerland, and Sweden, but was compelled to suspend payments of principal. In England and certain other creditor countries, interest as well as sinking fund payments had to be suspended, again as a result of the blocking of assets, but payments were resumed in 1945. There are now no arrears of interest due in any country and the Danish Government has advised the Bank that, as soon as the public markets permit, Denmark intends to refund the only remaining overdue payments of principal, which are in dollars.

"The Danish loan is in accord with the Bank's mandate to foster economic recovery of member nations in the interests of world trade. This external financial assistance is justified by the record of the Danish people in their endeavor to regain economic stability and in having attained their present rate of production and exports.

"Previous loans made by the Bank were the $250,000,000 loan to France, for which an agreement was signed on May 9th of this year, and a $195,000,000 loan to The Netherlands, signed Aug. 7th."

Turkey Seeks Loan

It is reported from Washington that Turkey, unable to get a larger credit than that already allotted from the U. S. Treasury, is preparing a detailed application to the International Bank for Reconstruction and Development for a $400 million loan, the funds to be used to modernize and reconstruct Turkish industry, transportation and agriculture. Turkey during the last two years has been trying to get a credit of $500 million from the Export-Import Bank, but without success.

John J. O'Brien to Admit

CHICAGO, ILL.—Alvin H. Hayward will be admitted to limited partnership in John J. O'Brien & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges, on Sept. 4th.

Abbott, Proctor & Paine

Lloyd Dabot Briggs, general partner in Abbott, Proctor & Paine, 14 Wall Street, New York City, members of the New York Stock Exchange, will become a limited partner effective Sept. 1st.

The World Crisis

(Continued from page 5)
This was a period of slow retrenchment and retreat.

Since the last war, however, the tempo has increased. Great Britain has no chance of covering import surpluses by her current invisible income. You know as well as I do how badly the gap has deteriorated in the past few months. Some observers believe that this gap can never be closed through export drives based on Great Britain's present industrial structure. They believe that a complete rehabilitation and modernization of industry, involving billions of investment in new machinery over a substantial period of years, will be necessary.

France, I believe, is even worse off that Great Britain and probably much closer to a political crisis of great magnitude. The government is weak because it must rely on a balanced power between two hostile forces—the Communists on the one side and the de Gaullists on the other. At the moment neither can attempt to seize power first, but either could probably seize power if the other precipitated a crisis. Both camps have hidden arms.

Under such circumstances, I can see no easy solution for France's economic problems. The economy is unbalanced and unstable. The strength of labor makes it impossible to stop the inflationary spiral at its expense and the government cannot drastically cut its own public expenditures without undermining its own position. French economic experts appeared utterly fatalistic in many personal conversations that I had with them. De Gaullists and Communists mark time, preparing for a final clash, and economic stability is much more likely to come after a great crisis than it is before. Politicians and economic experts alike recognize the fact that France is in the process of going through the wringer, but can see no way to stop it.

Nevertheless, Western Europe Will Not Fall Under Russian Control

What I have said so far, particularly about France, would seem to indicate that conditions are ideal for the Communists to come into control. Inflation, deflation and human misery provide a climate in which the Communist usually flourishes. Indeed, I would not want to predict that the Communists may not come into control in some areas or, at the very least, that their influence will not increase. Nevertheless, I do not believe that Western Europe will fall under Russian control.

Despite Russia's iron curtain a considerable amount of information leaks out. We have considered it of utmost importance to keep close track of Russia's economic position. It is not good. I have met no well-informed person who believes that Russia has anything but the greatest of economic problems. The regime is again building war industries at the expense of its population. Police control has had to be tightened frequently and emergency measures taken to exploit the resources of satellite areas. Russian soldiers who came into contact even with the meager living standards of South-Eastern Europe have been difficult to control and there have been many purges.

This does not mean, of course, that Russia will not continue to precipitate political crises. Russia is gambling for high stakes and must take risks accordingly. Each crisis, moreover, has a distinct value for home consumption, the population being keyed up to ever-greater sacrifices by the threat of a capitalistic attack.

Russia, I have no doubt, would very much like to control Western Europe if this area were economically sound. Under present conditions, however, she could not digest it. She would occupy it, no doubt, if that occupation were part of an immediate preparation for war against the United States. Otherwise, however, it seems to me that no greater burden could fall on Russia than to gain control of Western Europe at this moment.

This is not at all inconsistent with her course of political action. As long as the Western World fears that she will come into control, she will most certainly threaten to do so. I believe, however, that it would be a great shock to Russian leaders if they were told bluntly that they could have Europe.

Will United States and Russia Fight Over Europe?

Those who fear that there will be a war within the next two or three years in effect believe that the United States and Russia will fight over Europe. They do not expect a direct attack by Russia on the United States, and they recognize that an unprovoked attack by the United States on Russia is a practical impossibility. They fear, however, that some spark ignited by the struggle for control of Europe will set off a conflagration.

I cannot, of course, completely eliminate this possibility. I believe strongly that Russia would not want the responsibility of complete control of Europe at this point, although strategy would dictate its seizure if there were to be an early attack on the United States. Nevertheless, Russia almost certainly will continue to create crises and difficulties, taking bold and aggressive actions which, although there might be every intention to withdraw from them short of war, might through political oversight and blundering actually lead to war.

From the viewpoint of the United States, it would be very difficult to gear public opinion to another war unless there were a direct attack. I do believe that the United States will be firmer and plainer in drawing certain lines in Europe, but I believe that this will clear the atmosphere rather than lead to battles.

Another factor must also be considered. As Marshall proposed, the United States would like to see some sort of a stable Western Europe develop. There are great difficulties in the way, however, a fact which is certainly known to Russia, as well as to anyone else. Since any failure of United States policy in Europe would tend to discredit us, we may assume that Russia is not too unwilling to wait and see how things turn out in the next year or two.

Compromise Still Possible

It is impossible to guess now what will happen in the next year or two. We do have a basic situation, however, where Russia does not want to take too much open responsibility in Europe under present circumstances, and where the United States is willing to take some responsibility but must deal with an uncertain public opinion at home. I can see a distinct possibility that both countries may want to withdraw from Western Europe within the next year or two and that some compromise may still be worked out on the future of Germany. I don't say that this compromise would be a permanent solution. In fact, I am afraid that it would be merely the precursor to a lengthy political struggle that might go on for a decade or two. Nevertheless, such a compromise, if it came after a period of acute crises and war scares, might be hailed with great enthusiasm and might in fact lead to undue optimism about the future.

European Plans Non-Integrated

Most of the countries in Western Europe already have plans of one sort or another. The importance of the State as a controlling factor in the economy has increased greatly in Great Britain, France, Sweden and other countries. It is the function of the State to plan. Since the individual States do not lie within a single customs union, the plans are made individually and not for the States as a group. Each country attempts to develop its resources without reference to other countries.

This type of planning, it seems to me, is not very effective. None of the countries possesses resources that provide any assurance that these plans can be carried out. Most of them will require substantial help from the outside unless the period of development is to be so long that unpredictable crises will occur in the meantime.

Furthermore, it might be much worse if all the plans succeeded than if they failed. Since they are non-integrated, each country, at the end of a successful development period, would probably find its new capacities and resources duplicated in other areas, and far greater than the market potential.

Marshall Program

Secretary of State Marshall hoped to get around this difficulty by making United States aid dependent on more integrated planning than would otherwise result.

You realize, of course, that there is no Marshall plan as yet. European countries and many government agencies of the United States are working on various studies, from which some plan may ultimately be evolved. I am practically certain that some further United States loans will be made. Again, however, I feel pessimistic about the evolution of a real European plan.

First of all, there is the problem of Germany. The cost of reviving and stabilizing Europe would be heavy enough if German industry were rehabilitated, and it would be even heavier if it were not. However, France quite naturally wants safeguards against future revival of German militarism. No government in France can hope to hold power if it goes too far in agreeing to revival of German heavy industry. Communist influence in France waned during the period of the railroad strike but it revived sharply when new occupational directives made it plain that the Morgenthau plan was in the process of being junked.

Furthermore, there are bound to be disagreements about what will be the chief motivating force of European recovery. As you know, more and more of the European states have been following the policy of state planning. In the United States, however, dependence is still placed on competition as the main factor in shaping an economy. Europe, in short, has said that each state will plan within its own boundaries, developing capacity at a loss if necessary, and spending heavily on public works if necessary, in order to support the working population. The United States believes, however, that something on the order of a European customs union, which would ultimately eliminate economic boundaries even though political boundaries were unchanged, would force each government to follow a more rational policy of investment. The competitive factor would be ever present, and vast sums of money would not be spent in developing new capacity, except on an economically sound basis.

Canada Vitally Affected

What I have said so far deals with a general framework. There will not, I believe, be another war within the immediate future. Neither, however, will there be a lasting solution to world economic and political problems. I hope, but I am not convinced, that developments of the next 10 or 15 years may still prevent another war at some later date. Meanwhile, attemps to settle immediate problems and to create a long range stability will affect every country in the world. Canada and Canadian trade will be no exception.

Monetary Problems Far From Settled

The purpose of the International Monetary Fund and Bank was to produce an over-all exchange stability. Again I am forced to be pessimistic about this possibility. Currency stability requires a high degree of world equilibrium. Under such conditions, minor fluctuations could be tempered by the activities of the International Fund and Bank. From a practical viewpoint, however, I believe we should expect that many sovereign units will form themselves into the three following groups:

(1) A dollar area, consisting mainly of the Western Hemisphere with some exceptions. Canada and a few Latin American countries will probably not be members of the group, although restrictions on commerce will be non-existent or minor.

(2) The sterling area will continue to exist.

(3) Other countries, including Canada, will be more or less related to both the sterling and dollar groups, while retaining independent policies to a great extent.

There is not much doubt in my mind that the United States will modify the two loan provisions that are causing Great Britain the most trouble at the moment. I refer to the non-discrimination and sterling convertibility clauses. Sooner or later, however, sterling will again become convertible, even if these modifications are made in the meantime. It seems likely that New York will become some kind of an international center for the purchase and sale of sterling funds outside of Great Britain. The Bank of England may be expected to take a great interest in the sterling rate in New York.

Trade Problems Acute

It seems to me that Canada has several important trade problems. Canada's foreign trade has not yet readjusted itself to the post-war changes in the world economy. In 1946 Canada had a heavy export surplus with the United Kingdom and with other sterling countries. There was a substantial import surlus, however, in trade with the United States.

Some financial leaders in the United States believe that Canada will have to ask for a dollar loan within the next six to twelve months, or impose restrictions on imports from the United States. However, it is not impossible that these measures can be avoided. Canada is an attractive area for United States investments. There are invisible factors in the trade balance that tend to offset Canada's import surplus. Relative to current rates of activity, in fact, this surplus is not much greater than prewar.

Canada will, however, be affected by any sharp decline of European purchases, perhaps even more than the United States. Moreover, this trade to a certain extent depends on the ability to convert sterling into dollars. On the whole, it seems likely that there will be a shift in Canadian trade, with greater emphasis on exports to the United States or to the hard currency areas. This implies basic changes, however, since many of the products formerly sent to Great Britain would not find a ready market in the United States.

The "London Statist" suggests an easy solution for Canadian trade problems. "Canada, for instance, relies in the main upon the proceeds of her exports to Britain for the exchange she needs to purchase consumer goods in the United States. Dependent as she is upon exports for such a large part of her national income—the proportion is as high as 28%—her policy in the event of the exhaustion of British dollar reserves would presumably be to endeavor to maintain her exports to Britain and, at the same time, switch as large a part as possible of her purchases of manufactured goods from the United States to the British market."

Frankly, I do not believe that the solution will be that easy. It will be difficult to switch purchases of manufactured goods from the United States to the British market, at least until such time as British production has increased a great deal above current levels.

Canadian-U. S. Relations Favorable

I do believe, however, that the economic and political relations between the United States and Canada are a bright spot in an otherwise dark picture. Both Canada and the United States have some domestic problems to solve within the next year or two. Canada and the United States, however, are tied together through their strategic position and their common interests. Both of these have broad implications regarding the development of industrial and raw material resources. Over the years, I believe there will be a much greater development of Canadian mineral resources than there ever has been in the past. Despite certain doubts about the immediate future, American financial circles seem to have great confidence in the future financial position of Canada and in the long-term value of the Canadian dollar. A substantial volume of United States funds, I believe, will be available for investment in Canadian development.

Conclusions

In summing up, I feel perhaps that I should apologize for not being able to appear before you with a well-prepared series of optimistic statements. I find little ground for optimism in the foreign scene, on either a short-term or a longer-term basis.

Perhaps we would have a better chance of reaching world stability and permanent peace if there were more realists and fewer optimists. At the time of the first United Nations meeting in San Francisco a number of my friends concluded that the International Organization would succeed because it had to succeed. I have heard people say since then that the International Fund and Bank would succeed in stabilizing international currencies because they had to succeed. And every day I hear people say that the United States, with its great industrial resources, will assume an intelligent world leadership because it has to.

Yet as we look back in history we find that nations and peoples do not necessarily do the right thing simply because the consequences of doing the wrong thing would be too serious. The man in the street is influenced greatly by the condition of his pay envelope this week and next week, and not 15 or 20 years from now. The businessman by tradition works in a competitive market and is responsible to his stockholders. The politician in a democracy, unless he is a very exceptional human being, wants to be re-elected. It is possible to pick out an indefinite "they," such as the government, or business, or labor, or the people, and blame it for mistakes that have been made. Certainly, there have been mistakes since the end of the war. Repeal of the Excess Profits Tax in the United States, for example, was an open invitation to price advances. The fact remains, however, that every one of these mistakes was rooted in traditional types of thought or business practice. In the United States, at least, it

seems to me that the great majority of the people have simply been acting naturally since the war ended, getting a higher price or wage wherever it was possible, with little thought to the long-range demands of economic and political statesmanship. Implications of the atom are perhaps too huge for the human mind to comprehend, or at any rate to comprehend quickly.

I say, then, that it is damaging to be too optimistic. Let us recognize the problems for what they are—very difficult, very serious, perhaps a matter of life and death. It is no time to cherish illusions.

There is not much doubt in my mind that there will be a sharp drop in world trade within the very near future and that there will be further economic and political crises in Europe and throughout the world.

There is not much doubt in my mind that the United States will make some further loans. But it does not seem likely to me that an over-all program for Europe will be worked out in the near future on a sound basis. These countries themselves would have to give up too much in the way of traditional policies, state planning, and their own sovereignty. Maybe this will happen over a period of years, but it is most unlikely to happen quickly.

Consequently, I believe we are wrong in visualizing a situation in which the United States will grant new funds amounting to $4 or $5 billion a year for four or five years for use in European rehabilitation. The sums will be much smaller than that; they will involve qualifications that some countries may not choose to meet; and they will probably be earmarked for specific projects.

Canada, it seems to me, must still look forward to some serious readjustment, particularly in trade. Manufacturing capacity was expanded greatly during the war, and of course changes in foreign markets will have their impact in Canada, as well as in the United States.

It has been a great pleasure to speak before you. Canada and the United States have been neighbors for a long time. It seems to me that conditions in this post-war world will lead to a still closer relationship and a greater sense of mutual dependence.

Taylor With First California

Special to THE FINANCIAL CHRONICLE

SAN FRANCISCO, CALIF. — John J. Taylor has become associated with First California Company, 300 Montgomery Street. Mr. Taylor in the past was with Dickey & Co., Howell Douglass & Co. and Manheim, Baker & ver Mehr.

E. D. Baring-Gould Adds

Special to THE FINANCIAL CHRONICLE

SANTA BARBARA, CALIF.—Sidney John Perkins has been added to the staff of E. D. Baring-Gould, 19 East Canon Perdido Street.

Wm. R. Staats Adds

Special to THE FINANCIAL CHRONICLE

LOS ANGELES, CAL. — Harry L. Hanson has been added to the staff of William R. Staats Co., 640 South Spring Street, members of the Los Angeles Stock Exchange.

With Russell, Hoppe Firm

Special to THE FINANCIAL CHRONICLE

PORTLAND, ORE. — Paul B. Young is with Russell, Hoppe, Stewart & Balfour, Wilcox Bldg.

With Merrill, Lynch Co.

Special to THE FINANCIAL CHRONICLE

OAKLAND, CAL.—Charles W. Kruck is now with Merrill Lynch, Pierce, Fenner & Beane, 1319 Franklin Street.

The State of Trade and Industry

(Continued from page 5)

will go into the winter months with a slim reservoir of scrap and not enough coal on hand to withstand severe winter conditions.

In the face of current steel tightness Americans will soon feel the first practical results of the Marshall Plan when the United States Government directs the shipment of about 120,000 tons of finished steel over the next six-month period to Europe for rehabilitation of the Ruhr district. Within the next 30 days the War and State Departments will have made up their minds as to the exact tonnage which American steel companies must furnish, the trade paper points out. At that time a committee of experts from the steel industry will attempt to screen down these requirements to obtain a minimum tonnage which will carry out the War Department's program. Although the British had insisted that semi-finished steel be supplied, American steelmakers, because of the scrap shortage have insisted that only finished steel products be shipped.

Shortages and distribution difficulties are affecting major producers as well as consumers. Another freight car crisis is expected by October, when demand for cars will reach a peak.

Although the steel industry is furnishing steel at a rate above that promised for a 10,000 car month to carbuilders, authoritative sources believe that freight car output in October will hardly reach 8,000 units—2,000 below the goal set some months ago. The distribution and production of component parts plus the lack of skilled labor is responsible for this situation at carbuilding plants.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel capacity of the industry will be 93.4% of capacity for the week beginning Aug. 25, 1947, as compared with 92.8% one week ago, 94.4% one month ago and 89.4% one year ago. This represents an increase of 0.6% from the preceding week.

The week's operating rate is equivalent to 1,633,700 tons of steel ingots and castings compared to 1,623,900 tons one week ago, 1,651,900 tons one month ago, and 1,575,600 tons one year ago.

ELECTRIC OUTPUT 11.4% AHEAD OF A YEAR AGO

The amount of electric energy distributed by the electric light and power industry for the week ended Aug. 23, 1947 was 4,952,876,000 kwh., according to the Edison Electric Institute. This compares with 4,923,000,000 kwh in the preceding week and was 11.4% in excess of the 4,444,040,000 kwh produced in the corresponding period of last year.

RAILROAD FREIGHT LOADINGS ABOVE LAST WEEK AND YEAR AGO

Loadings of revenue freight for the week ended Aug. 16, 1947, totaled 906,305 cars, the Association of American Railroads announced. This was an increase of 1,061 cars, or 0.1% above the preceding week. This represented an increase of 18,752 cars, or 2.1% above the corresponding week in 1946, and an increase of 255,473 cars, or 38.8% above the same week in 1945.

AUTO PRODUCTION HELD DOWN BY SHORTAGES AND LABOR DISPUTES

The industry the past week was confronted by a strike in the Carter Carburetor Co. plants, which according to Ward's Automotive Reports, constitutes a major threat to future manufacturing programs throughout the industry, since this company supplies most of the car makers excepting Ford and Packard.

Car and truck output in the United States and Canada the past week as estimated by Ward's, totaled 84,739 units as against last week's revised total of 83,501 units and 91,360 units for the like week a year ago.

In 1941 production for the comparable week totaled only 45,525 units as the car factories were in the midst of a model change-over period. Last week's output, Ward's said, included 60,288 cars and 19,163 commercial units assembled in United States plants and 3,550 cars and 1,738 trucks produced in Canada.

BUSINESS FAILURES TURN SLIGHTLY DOWNWARD IN LATEST WEEK

Commercial and industrial failures turned slightly downward in the week ending Aug. 21, declining to 59, a drop of 19 from the preceding week, Dun & Bradstreet, Inc., reports. They were, however, almost four times as numerous as in the comparable week a year ago. For the same week in 1946 failures stood at 17.

Both large and small failures showed a drop for the week. Failures involving liabilities of $5,000 or more were down from 61 to 52 but exceeded by a wider margin the 15 reported last year. Small failures declined to 7 from 17 in the previous week.

Although to date, weekly failures this year have been consistently higher than the same week a year ago, commercial and industrial failures in the week of Aug. 21, were the lowest since July 10, and the second lowest since April 10.

SUMMARY OF TRADE

Improved weather conditions in some areas helped to prevent a further decline in consumer buying. Retail volume in the week remained at the level of the previous week and was slightly higher than that of the corresponding week of 1946. Clearance sales were fewer than in previous weeks, but promotions of Fall merchandise increased. Consumer quality-price discrimination continued.

Wholesale volume rose slightly above the level of the previous week and was moderately higher than that of the corresponding week a year ago. Increased costs and slow deliveries in some lines agitated retailers and buying continued to be cautious. Some types of merchandise remained difficult to obtain.

WHOLESALE FOOD PRICE INDEX DROPS IN LATEST WEEK

After rising steadily for three weeks, the Dun & Bradstreet wholesale food price index declined 2 cents to stand at $6.57 on Aug. 19, as compared with $6.59 recorded a week earlier. The current figure represents an increase of 23.0% over the corresponding week a year ago when the index stood at $5.34.

Advances for the week included wheat, corn, rye, oats, beef, hams, bellies, coffee, cocoa, peas and potatoes. On the down side were flour, lard, butter, cottonseed oil, peanuts, steers, hogs and lambs. The index represents the sum total of the price per pound of 31 foods in general use.

DAILY WHOLESALE COMMODITY PRICE INDEX ATTAINS NEW POSTWAR PEAK

Continuing its upward trend, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., rose to a new postwar peak this week. The index closed at 274.17 on Aug. 19, compared with 271.91 a week earlier, and with 224.82 a year ago.

Grain prices ruled at a high level although movements were irregular during the week. Corn continued to lead in activity. Responding to renewed reports of unfavorable weather conditions over the Midwest prices recovered most of their earlier losses and closed strong. Wheat trading increased in volume, aided by substantial government buying. After early weakness, prices rose to new seasonal highs, influenced by the boost in government buying price for the cash grain.

Harvesting of Spring wheat was reported well under way. Visible supplies of wheat last week showed an increase of 12,040,000 bushels; corn supplies reflected a moderate decline. Flour prices were easier. Except for a fair volume in family flour, demand was dull with most users well stocked up for 60 to 90 days. The lard market was unsettled last week due to the rapid accumulation of supplies. As of Aug. 1 stocks of lard in cold storage in the United States aggregated 193,000,000 pounds. This was an increase of 17,000,000 over a month previous, and compared with only 44,000,000 a year ago.

Cotton was depressed on the first two days of last week following announcement of the larger than expected government crop estimate of 11,844,000 bales. Thereafter prices moved irregularly higher with final quotations slightly above a week ago. The market strengthened on reports of mill and commission house buying and trade price-fixing against sales of cotton to Japan.

The Department of Commerce announced the completion of the purchase of over 92,000 bales of cotton for shipment by the Army to Japan and Korea. Sales registered under the export program were about 37,000 bales during the week ending Aug. 9, as against only 870 bales during the previous two weeks. Late crop reports indicated poor to average progress in central and eastern sections of the belt, with boll weevil doing some damage.

Trading in cotton textile markets was irregular and spotty. Buyers were hesitant in making extensive commitments due to the easiness in raw cotton markets. Some resistance to top asking prices developed for spot and nearby print cloths.

Buying of domestic wools in the Boston market was slower last week following recent substantial purchases. Wool tops were in strong demand but very little business was reported done due to a difference of about 5 cents between the offered and the bid price. Foreign wools continued in demand but finer grades were very scarce. Purchasing of new clip wool in Montevideo continued active, with prices up about 2 cents since the first of the month.

RETAIL AND WHOLESALE TRADE MODERATELY ABOVE YEAR AGO

A change in the weather alleviated unfavorable conditions in some of the heat-stricken areas of the country and arrested the decline in retail volume. Consumer buying the past week remained about at the level of the previous week and was fractionally higher than that of the corresponding week a year ago, Dun & Bradstreet, Inc., reports in its current survey of trade.

Substantial quantities of most foods were readily available. The demand for fresh fruits and vegetables was large and housewives in some areas purchased large stock of home canning. Frozen foods, canned meats and cold cuts were in steady call. The consumption of dairy products, soft drinks and beer increased considerably. Known brands of canned foods continued to be popular.

The number of apparel clearance sales decreased somewhat, but mark-downs continued on men's and women's summer clothing and some types of shoes. Lingerie, blouses and bathing suits sold well. Promotional sales increased as efforts to attract consumer interest to fall merchandise were intensified.

Back-to-school items were popular, though scant attention was devoted to furs, millinery and jewelry. The demand for men's suits and topcoats was large and men's white shirts sold well.

Nationally advertised major appliances remained in limited supply, but the demand for electric fans and room coolers increased substantially. Lawn and porch furniture sold well, but high quality dining and bedroom furniture continued to be scarce.

The volume of household supplies and bedding was large. Builder's hardware, paints and carpenter tools were eagerly sought. Increased vacation travel contributed to a rise in the demand for tires and automobile supplies.

Retail volume for the country in the week ended on Wednesday of last week was estimated to be from 1% below to 3% above a year ago. Regional estimates varied from those of a year ago by the following percentages: New England and Middle West declined 4 to 8%, South 2 to 6%. Increases were: East 1 to 5%, Northwest 3 to 7%, Southwest 6 to 10%, and Pacific Coast 7 to 11%.

Wholesale volume in the week rose slightly above the level of the previous week and was moderately higher than that of the corresponding week of 1946. Buying was generally brisk as many retailers sought to replenish diminished stocks. Caution continued to key-note purchasing and buyers in some lines evidenced uneasiness over increased costs and slow deliveries.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Aug. 16, 1947, decreased 6% below the same period of last year. This compared with a decrease of 2% (revised figure) the preceding week. For the four weeks ended Aug. 16, 1947, sales decreased by 1% and for the year to date increased by 8%.

With the drop in the thermometer bringing cooler temperatures retail trade here in New York the past week made some progress. Notwithstanding the failure of consumer buying in fall ready-to-wear and fur coats to come up to expectation, department store sales on the other hand, closely approximated last year's level.

In wholesale markets, mark-ups on dresses after orders were consummated, continued to be a source of much controversy.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Aug. 16, 1947, decreased 13% below the same period last year. This compared with a decrease of 3% in the preceding week. For the four weeks ended Aug. 16, 1947, sales declined 4% and for the year to date rose by 8%.

Prices, Wages and Profits—A Plea for Labor-Management Understanding

(Continued from page 2)

progress lies in the work of schools like this New York State School of Industrial Relations, where the future industrial relations men of industry and of organized labor are being trained without bias and without prejudice.

There are also problems for the Sunday Schools, as there are in all areas of human relations, but I won't go into that. My subject is broad enough if I stick to economics.

Because this is an educational problem, this conference is a good place to bring it. I hope this conference—in the informal discussions that are to follow this meeting—can take it up and look at it.

I am spending a good part of my own time this year in developing a practical course in the Economics of American Industry for Westinghouse employees — mainly in the professional and supervisory ranks. But I realize that if real progress is to be made in bringing labor and management together, the lead must be taken by neutral agencies, such as this school at Cornell.

I propose to use the rest of my time to present management's way of thinking about some of the practical questions concerning wages, prices, and profits that have been in dispute during the past two years. Let me remind you my present purpose is to illustrate the vast differences that separate labor and management thinking on these questions. Naturally, I think my way of looking at them is the right way; but, at the moment, I am not trying to convince you of anything—and I hope it will be evident that I am mad at nobody.

Prices and Wages

Suppose we look at prices and wages first.

Labor's position—stating it very simply—is that prices are too high; profits are too high; wages are too low.

One labor view was given in a recent issue of the AFL "Labor's Monthly Survey," from which I quote two pertinent statements:

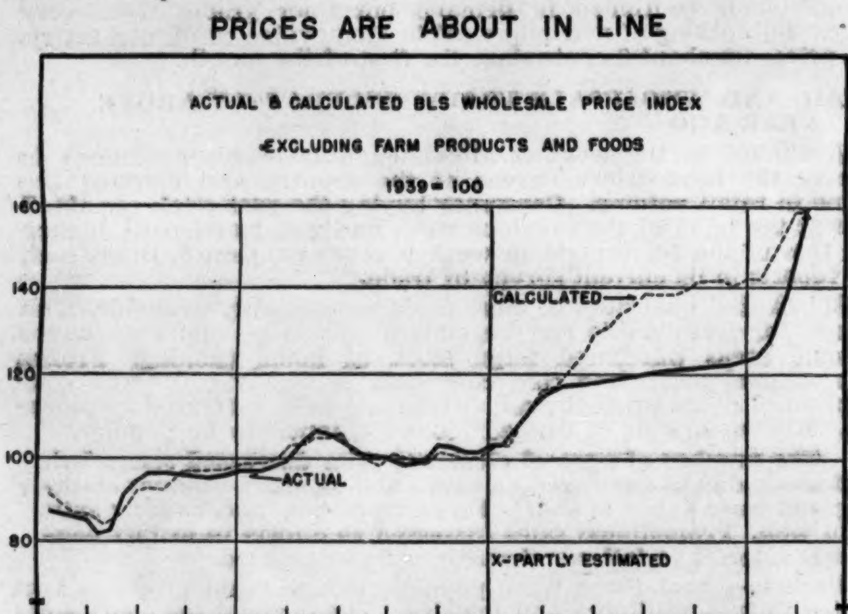
(1) "How can 'full employment' be long maintained while rising prices cut off buying power?"

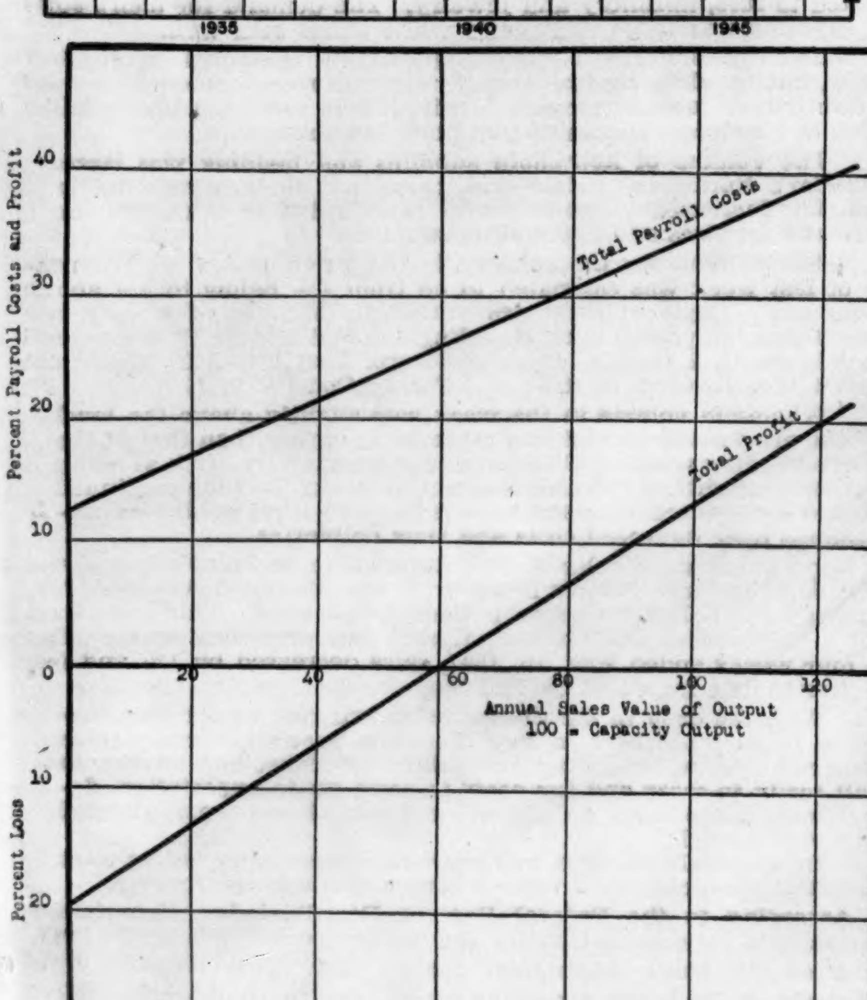
(2) The second statement:

"We are organized to raise wages, but this is not enough. We need to organize as consumers—to raise our buying power by seeing that wage increases are not wiped out by rising prices. . . ."

Another opinion of labor is that presented at length in the report made for the CIO by the economist, Robert Nathan, with which, I am sure, most of you are familiar. It is not my intention to analyze the Nathan Report, nor to comment on it. That has been done by able economists on the management side. I merely wish to point to its underlying thesis: that wages can be raised without increasing prices because of the large increase in profits.

PRICES ARE ABOUT IN LINE





Throughout the controversy over raising wages without raising prices, I think it is fair to say that labor's position is that prices have been arbitrarily and unnecessarily increased by management; that such price increases have increased profits unduly (this is a very mild way of saying it); and that high prices and high profits will sooner or later cause our existing prosperity to disappear into depression.

Philip Murray, in his report of last January to the Council of Economic Advisors to the President, made this statement:

"Industry's insatiable appetite for profits has brought about a redistribution in our national income which, if permitted to continue, will reduce purchasing power and cause mass unemployment."

The management position—if I may be so bold as to assume there is a single management opinion—is that prices and wages are tied together with considerable rigidity—and that profits are too small a factor to provide any appreciable flexibility. Despite much opinion to the contrary, the American economy remains one in which competition effectively holds prices of manufactured goods closely in line with costs of production. I will discuss the relative size of wages and profits later on. Now I wish to show how wages and prices are tied together.

To do this, I wish to direct your attention to some statistical work done at Westinghouse that I think is interesting and that presents this matter in a quantitative fashion that I believe is new. It supports our position that prices of manufactured goods are the result of natural law, despite the fact that prices of differentiated products are also set by their producers. Prices of manufactured goods are determined by their cost of production, and by what consumers are willing to pay.

It is possible to calculate a price index for manufactured goods that has agreed very closely with the actual BLS Wholesale Price Index since 1932, and until OPA came into the picture in 1942.

This series of calculated prices is based on three factors that are most important in determining the price level of manufactured goods. These three factors are the best measures we have found of the natural forces of supply and demand that determine the price level.

The three factors are:

(1) National income payments to individuals, which is a good measure of the effective demand—of what people are willing to pay for goods, under prevailing conditions—and which acts on the price level in much the same way as does total money supply.

(2) The average price of raw materials.

(3) Unit Labor Cost.

Unit labor cost is **increased** by any increase in average hourly wage rates, and is **decreased** by any increase in **production per man-hour.**

The two latter factors are the cost factors that measure the forces of supply.

This calculated price index followed the actual BLS index closely for the 10 years from 1932 until the middle of 1942, when OPA price controls started to hold back the official BLS price index.

As nearly as anything is "proven" by statistics, we can say that these factors used in the calculated price index do account satisfactorily for price changes of manufactured goods over this 10-year period of depression and partial recovery.

Therefore, it is a reasonable deduction that the **calculated** index continues to show what would have happened to industrial prices without OPA controls during the four years 1942-46.

This chart gives a highly significant picture of what OPA really did to wholesale prices of manufactured goods.

What OPA did was to postpone for four years the natural price increase that would have occurred, without OPA, during 1942 and 1943.

Then, during the two years of 1944 and 1945, there was no natural tendency for prices to rise, and OPA had an easy job. There would have been no greater price rise without OPA during these two years than occurred with OPA, but prices would have been at the higher level shown by the **calculated** index.

When OPA controls were relaxed and finally removed in 1946, the BLS index jumped nearly 40 points. But half of this jump was to close the gap between controlled prices and "free market" prices. There was created the illusion of an extremely steep price inflation during the 12 months from March 1946 to March 1947. It is the false impression created by this double jump in prices that has caused the great concern over the existing price level and the expectation of a correspondingly sharp price decline.

In the first quarter of 1947, the official BLS index and the calculated index again came together; since last March prices have been in line with the natural forces of supply and demand.

The real price picture of industrial products since 1940 is a total rise of about 60 points in six years—an average rise of 10 points per year.

To place this World War II price history in its proper perspective, it should be compared with a rise of 135 points (on the same 1939 base) from late 1915 to the middle of 1920, during and after World War I. The World War I average rise of industrial prices was nearly 30 points per year, or three times the rate of the past six years.

OPA is given much more credit than it really deserves for the smaller increase in the price level between 1942 and the present, as compared with the much larger price rise between 1915 and 1920.

Prices **now** are where they would be if OPA had never operated, if we make one necessary assumption: If we assume that total national income (and money supply) and unit labor costs had followed the same course without OPA that they actually did follow with OPA. What I am saying is that if wages had been controlled as they were, OPA merely delayed the price rise that has now occurred. Wage controls, money supply, and production per man-hour are the factors that are responsible for the present price level of manufactured goods.

But I have been discussing average prices, and **averages** never tell the whole story. Averages can conceal wide disparities, great dissatisfactions, and possible troubles.

There would be no dangers lurking in high prices, if all prices moved up together, and if all incomes increased by the same ratio.

No matter how high average prices rose, under these uniform conditions, everybody would be in exactly the same position as they were before.

Prices and incomes would match.

The difficulty is that prices and incomes do not increase in the same ratio for all commodities and for all groups of workers.

The incomes of some farmers and of some large groups of strongly organized wage earners have increased much more than the incomes of annuitants, school teachers, and white-collar workers, generally. To make matters worse, the prices of such necessities as food and clothing have increased much more than the prices of less necessary things. As a result, the workers whose incomes have **lagged behind** the average cannot buy the goods produced by the workers whose incomes have **exceeded** the average. In this sense there can be insufficient purchasing power, because the usual distribution of real income has been disturbed.

The chief source of danger to continued prosperity for all lies in the extremes of prices and of incomes—in abnormal differences within the averages. The important watchword over the coming months is **orderly adjustments** to reduce any extreme differences among incomes and among prices.

Our price problem is one of **orderly adjustment**; of bringing individual prices and group incomes in line with the new higher postwar levels. The problem is one of bringing up low incomes and bringing down high prices. The problem is not one of total purchasing power nor of the average price level. A further increase of high wage and salary rates would be just as undesirable, at this juncture, as would be a further increase in the highest prices. The situation is not one that requires any drastic reduction in the average price level, nor, I am tempted to add, any drastic reduction in total national income. I group these, because price and income are two sides of the same coin. They have gone up together, and they will come down together.

It will be interesting to use this statistical study of prices to calculate how much incomes and unit labor costs would have to change in order that average prices would drop an appreciable amount. I do not have time to go through this calculation with you, but I will give you the result.

We found that changes in the actual price level of industrial products can be accounted for by changes in these four factors:

(1) National income payments to individuals.

(2) Average prices of raw materials.

(3) Average hourly wage rates in manufacturing.

(4) Production per man-hour.

I propose to show that a sizable drop in the average price level can occur only if and when sizable changes occur in all of these related economic factors. Specifically, a sizable reduction in the price level of manufactured products can occur only if there is a sizable decline in national income, in employment, and in wage rates—that no one wants; labor least of all.

Suppose we assume, for our experiment, that we wish to produce a drop form the level of last March by the relatively small amount of 10%.

Under current labor conditions of full employment, it would be unrealistic to assume any decline at all in unit labor costs of manufactured products. Probably any gain in production per man-hour will be offset by further increases in average wage rates.

Unit labor costs will be assumed to remain constant.

Suppose also that we assume a decline in the raw material average of 15% (which would be on the high side for a 10% drop in wholesale prices).

With these apparently reasonable assumptions, we can calculate the corresponding value of national income payments to individuals. **The calculation shows that under the assumed values, a 10% drop in prices could occur only if income payments declined 25%.**

We know from the past behavior of national income statistics that total wages and salaries would drop in step with total income payments. If income payments dropped 25%, wages and salaries would also drop about the same 25%. But we assumed that unit labor costs would remain un-

changed. Without burdening you with any more figures, a drop of 25% in total wages at the same unit labor cost would mean, roughly, 25% decline in number of workers employed or more workers employed at reduced hours.

In the actual case, there would be some reduction in average wage rates and less reduction in total employment, income, and wages. But, in any event, no one would be very happy over the consequences if the price level of manufactured goods dropped even 10%, when the other related conditions of income, employment, and total wages were again in equilibrium.

It follows from this analysis that any one who recommends a sizable decline in the average prices of manufactured products, under today's conditions, is in reality recommending a considerable decline in national income, in total wages, and in employment or in wage rates. **A recommendation or prediction of a sizable drop in prices is a recommendation or prediction of real depression.**

I will close my discussion of prices and wages with this observation: We are living in a competitive economy in which management has two masters in this field of price policy (among other masters in other fields): the first of these masters is **cost of production**; the second is **effective customer demand.**

On the surface of things, managements in manufacturing industries are free to establish prices as they see fit; it is this view of the situation that has led the President of the United States, labor union leaders, many public leaders, and the Newburyport merchants, to urge manufacturers to reduce their prices.

It would be more logical (but not nearly so attractive politically) if all of these advocates of lower prices were to urge management and labor, together, to reduce unit labor costs (say, by withholding demands for still further wage increases until increases in productivity can operate to reduce unit labor costs), and to urge the government to reduce the money supply by debt reduction, and to reduce costs of production by reducing corporation taxes.

Profits

Labor officials have been most insistent that profits are too high.

The thesis of the Nathan Report is that profits are excessive; that high profits are the result of high prices and that directly and indirectly high profits will be responsible for an industrial collapse caused by lack of purchasing power; i. e., by low wages.

Philip Murray, in his report to the Council of Economic Advisors, previously mentioned, cites various figures to show that profits have increased more than wages have increased.

As a statistical study, both the Nathan Report and Mr. Murray's Report are defective and misleading, because of their choice of periods for comparing wage increases with profit increases.

I would state management's position concerning present controversies over the size of profits by making these four points:

(1) Many of the profit comparisons used by labor economists are made on an incorrect basis and are thereby misleading;

(2) Total corporation profits are so small in comparison with total wage and salary payments, that they offer no possibility of any material increase in per cent of wage and salary payments, even if they could be used, with safety, for that purpose;

(3) Instead of being excessive, profits, as a per cent of sales and as a per cent of investment, have been declining for the past 30 years—and longer;

(4) Labor has an equal interest with management in maintaining ample profits. Profits enable management to attract capital and to reinvest profits to provide more jobs, reduce costs, and to increase wages.

I will take up these four points in order.

(1) **Many Comparisons Are Misleading**—I have, on the screen, a simple diagram that shows how salaries and wages, on the one hand, and profits, on the other, change with output or sales, in a typical mechanized plant with average overhead costs.

There is an appreciable outlay for wages and salaries for zero output. Then salaries and wages increase directly in proportion to output.

At capacity output, the ratios of salaries and wages to total income vary widely for different industries and for different firms, depending on how completely the industry or firm is mechanized, and to what extent the individual firm works up raw materials or assembles purchased parts. An oil refinery, for example, may show a ratio of payroll to income of only 10%; an integrated steel corporation, on the other hand, may spend 60% of its total income on payroll.

Profits vary with output in a very different fashion. At zero output there is a dollar loss equal to overhead costs. This loss is gradually reduced as output increases. The output, at which this loss is wiped out—the break-even point—varies from, say, 40% to 70% of capacity. Above the break-even point, profits increase rapidly with increase in output.

With these different relationships to output, it becomes important to make profit and wage comparisons for years of similar output. The only fair basis of comparison is to compare average payroll, over the range of output typical of the industry, with average profit (or loss) over the same range of output. An industry that is subject to wide fluctuations, such as steel, should average its profit and loss over a wide range of output.

There are many other reasons why some labor economists' comparisons are misleading. Nathan's Report, for example, compares declining payrolls from the war peak of 1944 to increasing profits during the same abnormal period. The base for payrolls was high; the base for profits was low, due to excess profits tax and the government renegotiation of war contracts.

Many of Nathan's earnings figures were comparisons of January, 1945 (a high base), with October, 1946, when hours per week had been reduced 10 to 15%. His comparisons of profits were from the subnormal period, 1936-1939, to the fourth quarter of 1946—a period of peak production.

(2) **Total Profits Are Relatively Small**—Total payments of wages and salaries to individuals are about 65% of national income. In years of full employment, profits of corporations have varied from 8.6% to 11.4% (1915).

Suppose profits were cut in half. In the best year, this would amount to less than 10% of corporation payrolls.

A more important consideration is that profits are very unequally distributed. In the best year (1917) one-third of all American corporations reported losses. In 1941—the best prewar year—only 56% of active corporations made a profit; 44% reported losses.

(3) **Profits Measured as a Per Cent of Investment Have Been Declining**—The diagram now on the screen shows a declining trend in profits since 1915. I commend this picture of a declining profit-trend to those economists who are convinced that monopoly is becoming a stronger and stronger factor in American industry.

If monopoly is an increasingly strong factor in American industry, we must conclude that the American monopolists are either afraid to exercise the powers of monopoly—or that they do not possess the powers they are supposed to have. My own belief is the second—for this and other reasons that I cannot go into here.

(4) **Labor Has an Equal Interest With Management in Maintaining Ample Profits**—A profitable industry and firm attracts additional capital. New capital and the reinvestment of profits is necessary if a firm is to maintain its competitive position in its industry, to grow with its industry and provide more jobs and better wages for its employees.

I wish to show you two charts that support these generally accepted statements:

The chart now on the screen shows how closely production per man-hour has increased in step with the amount of mechanical power used for each employed wage earner.

Mechanical horsepower installed is a good measure of capital investment per worker for mechanical equipment.

The second chart shows how real hourly wages have increased in step with output per man-hour.

Combining the results shown by these two charts, you can see that real hourly wages have increased in step with installed horsepower. Installed horsepower and its associated power-driven tools require new capital; new capital requires profits.

In the final analysis, more jobs and higher wages come out of profits. Don't you think it would be smart for labor leaders to **demand high profits?**

In closing, I wish to repeat my plea for better understanding between labor and management: through better understanding of the basic economic principles—some of which I have reviewed.

Labor and management have a common interest in securing these desirable conditions in American industry:

(1) Ample profits to attract new capital and for reinvestment.

(2) Increased production per man-hour.

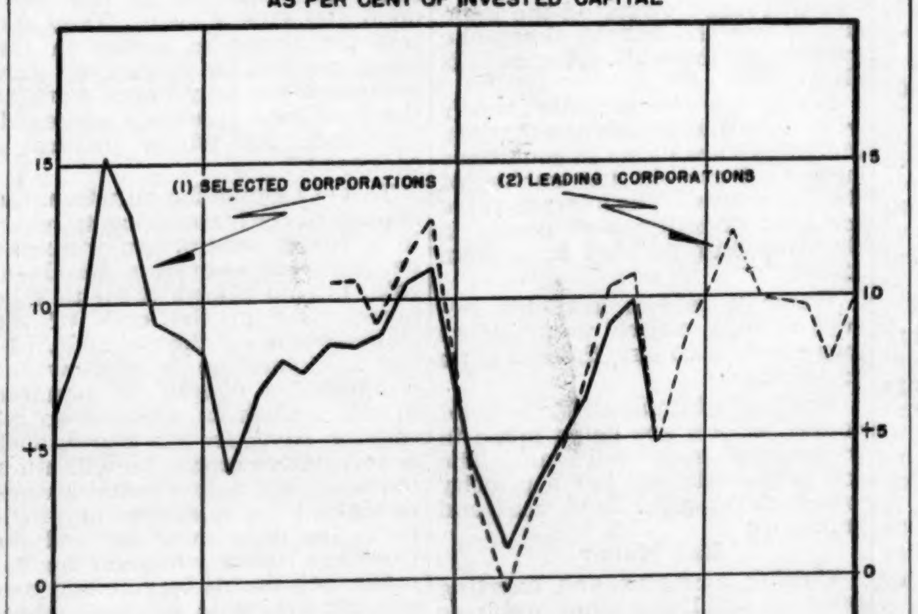
(3) Increased wages.

(4) Lowered cost of production.

(5) Lower prices.

Only intelligent cooperation and fair dealing will bring them about. And the first two—ample profits and increased production per man-hour—are essential to the other three—higher wages, lower costs, and lower prices.

AVERAGE PROFITS IN MANUFACTURING
AS PER CENT OF INVESTED CAPITAL



RELATION OF PRODUCTIVITY TO HORSE POWER IN MANUFACTURING
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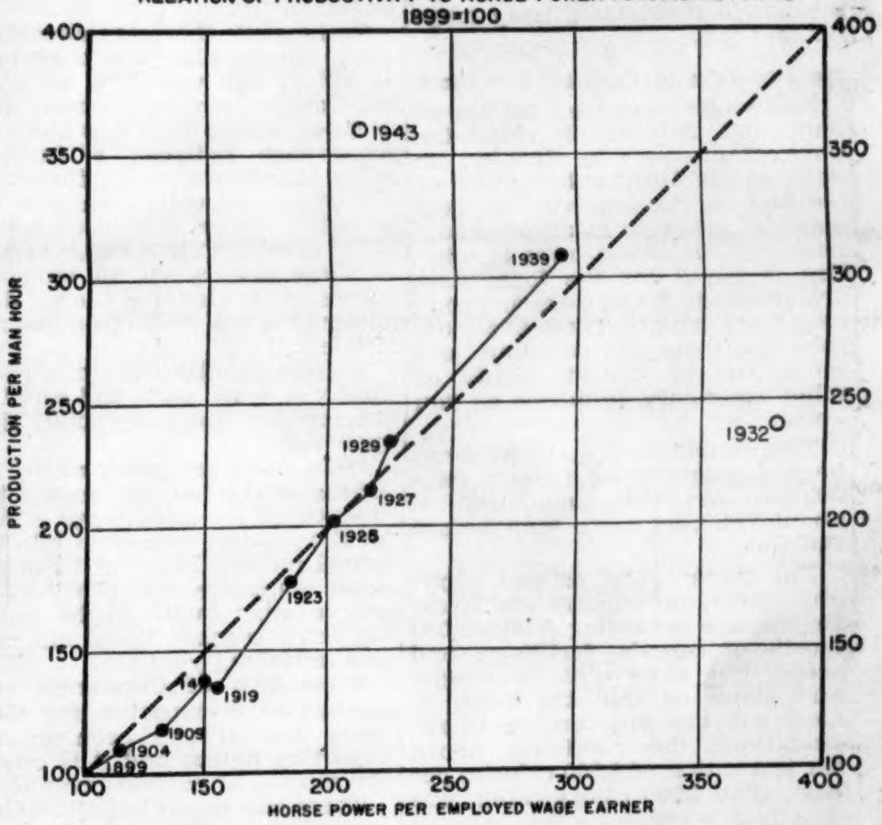

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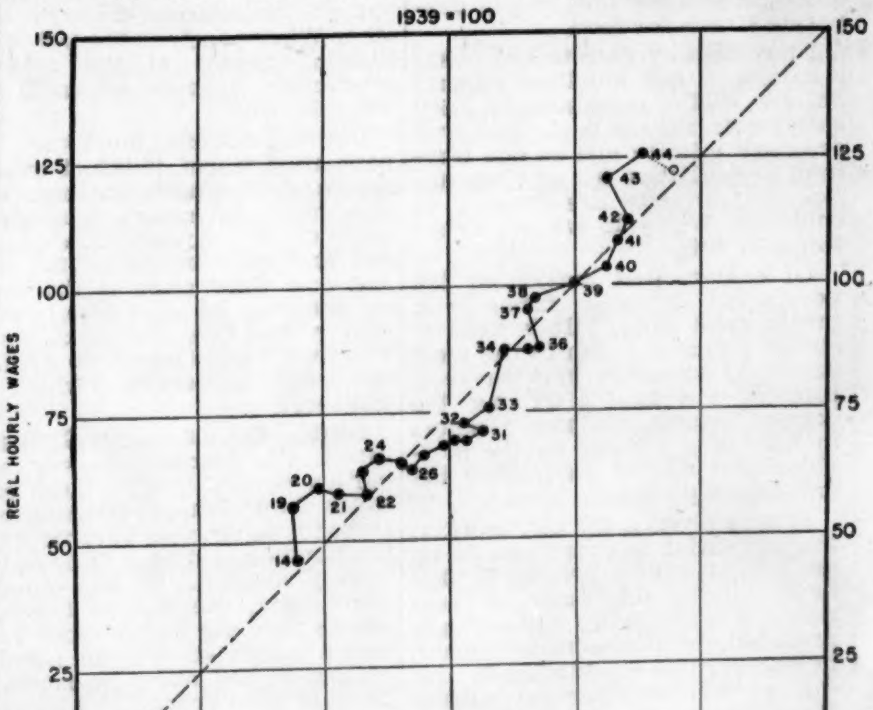


Irving Reynolds Resumes Law Practice

Irving Reynolds, Vice-President of the Chase National Bank and Secretary of the bank's board of directors in recent years, is resigning his post as of August 31 to return to the practice of law as a member of the firm of Shearman & Sterling & Wright, 20 Exchange Place, New York City.

Before joining the Chase staff in 1942, Mr. Reynolds had been a member of the firm of Mudge, Stern, Williams and Tucker and had specialized in banking matters. He is a graduate of the University of Delaware and the Harvard Law School.

Mr. Reynolds resides in Mount Vernon, where he served on the Board of Education for six years and as President during the past year until his term expired in May.

Business Man's Bookshelf.

Guarantee of Annual Wages, The — **A. D. H. Kaplan** — The Brookings Institution, Washington 6, D. C.—cloth—$3.50.

Statistical Handbook for New Jersey Municipal Bonds — 15th Annual Edition—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.—paper.

Why Kill the Goose?—Sherman Rogers — Foundation for Economic Education, Inc., Irvington-on-Hudson, New York—paper—75c.

Germany Revisited

(Continued from first page)

fronts, little shops, and you know the trade is struggling to survive.

The rubble has been cleared from the streets and pushed back over the sidewalks. It is quite impossible to give you any picture of the magnitude of that task alone, but as an example of what it is, I can cite you one figure:

In the Krupp Works at Essen, they succeeded in finding two buildings that were not destroyed—just damaged, as they term it—and it was decided to put these buildings back in service for locomotive repair. Before they could do this, and remember they were moderate-size one-story buildings, they carted out 70,000 tons of rubble. Multiply that by a million and then by 10 and you will have a start on an idea of what our problem is. So we must not get the impression that nothing has been accomplished.

General Clay and his men who have directed the work in our zone deserve and should receive great credit. They, like the rest of us, are disappointed that they have not been able to do more, but, having some experience myself with the comparatively simple job of trying to get new plants in operation and production lines going, and knowing something about the difference between planning and producing, I rather question whether under the most perfect conditions they could have accomplished more and I take off my hat to them for a truly magnificent job.

No Progress in German Economy

But while, from the base line of July and August of 1945, the physical progress in cleaning up and re-establishing the tools of industry is impressive, no real material progress in an economic sense can be made until a solution is found for the four basic problems which the German economy faces today. These are food, coal, transport and inflation, and there are, of course, plenty of other secondary problems as you know.

The combined U. S.-U. K. zones have a population of about 40,000,000 and this population is about 7,000,000 more than before the war.

For these zones, as you probably know, our country and Great Britain are providing $600,000,000 worth of cereals, fertilizers and seeds, but even with this help, and assuming that the crops in Germany this year are up to expectations, the maximum hoped for is a ration of 1,500 calories per day. The 1,500 calory ration was in effect a year ago, but today it is only about 1,000 calories per day. So you see they are in desperate straits for food.

I haven't any definte idea what a calory is, but nutrition experts believe that a minimum of 2,500 calories is necessary to preserve ordinary vitality and as one German said, "Hitler fed us vitamins; you Democracies are feeding us calories. When do we get something to eat?"

Of course, that portion of the population living on farms is in pretty good shape. It is hard to starve a farmer, even in the most regulated economy. But traveling through the land during the harvest season, we saw gleaners in the fields picking up the individual kernels of grain after the harvesters passed.

It is as always, the city worker, the industrial worker, who is up against it. For, while in the heavy industries, such as coal mining, additional rations are provided for the worker himself, he is forced to see his family living on this very meager subsistence ration. How much the official ration is augmented by black market operations no one can say and the estimates differ widely, but our medics say that TB and malnutrition and diseases are steadily on the increase.

To be sure, Germany's food production is below normal, due to lack of fertilizer and tools, but it is well to remember that even at her maximum production capacity, Germany was never able to produce more than 80% of her own food requirements.

Problem of Coal

When we turn to the problem of coal, we find that the great producing center of Germany in the Ruhr Valley is operating at between 50 and 60% of its prewar capacity. This area, of which Essen is the center, was blasted night and day by aircraft and production was almost at a standstill when the Allies took over. You would be impressed by the examples of skill and ingenuity which are evidenced in the reconstruction of the surface work around the mines, carried out by the managers and their men.

Coal production was brought up to 230,000 tons a day last fall. Then came the terrible Winter and with it the reduction in rationing allowance. Coal production dropped to 150,000 tons. From that low point it started to rise and is now just over the 200,000-ton mark.

These mines are in the British zone and some of our own coal men are a little critical of the results. Of the validity of these criticisms, I am not in a position to judge.

To be sure, there are almost as many men employed in the mines as before the war. To be sure, the production per man has dropped from 1 7/10 tons a day to somewhere between 8/10s and 9/10s of a ton a man. However, you cannot expect a man to work as efficiently on a reduced ration as he does on full ration. Living as these miners do, in crowded houses and traveling long distances to work, does not make for efficiency.

Mine m a i n t e n a n c e is poor. Stocks of spare parts and supplies are at a low ebb and rapidly disappearing.

Here, too, you note, as in all phases of German life today, the absence of the middle-age group, for the younger men went into the armed forces. Many of them are dead; many are still prisoners of war in other lands, so the working force is made up of old men and untrained youth.

Some 20% of Germany's coal production is exported, for Germany has always been a coal exporting nation and it is one of her sources of outside revenue.

There was no coal at all in Germany last year for domestic heat. Our people realize they cannot put the population through another Winter such as the last, so a certain amount of the present production is being set aside for domestic use.

But coal not only must keep the population warm, it is not only a means for export income, but also more coal means more steel, more electric power, more fertilizer and more industry. So, coal and coal production is the topic on the lips of everyone. With coal production increased, however, we should come up against the next bottleneck — which is transport.

During the war years Germany raped all Europe of cars and motive power. Today, those cars stolen from France, Belgium and Holland, have been returned and the number available in Germany greatly reduced. Of this remaining supply, the transport people tell us they are losing about 1,000 cars a month—that is the number of cars in bad order in excess of those in good order.

Repair work is hindered by lack of steel and parts and inefficiency of labor, due to the same causes I have outlined in the coal situation.

The fact that shop facilities have been so largely destroyed means practically all the work must be done in the open. In the sub-zero weather of last winter car repairs came almost to a standstill.

Transport men sing the same story there as our railroad men sing here. They say the cars they send out of the country for exporting coal never come back, or they get a bad order returned for the good one sent out. These men say we probably can handle up to 250,000 tons of coal a day, but after that they shrug their shoulders.

The harvest season is now in progress and the movement of crops is going to put additional strain on the railroads. Rivers and canals are pretty well opened up and a reasonable amount of freight is being handled on them, but in this operation they are handicapped by a lack of tugs.

The roads and the great Autobahn are pretty well back in service. Of course, there are occasional detours to escape destroyed bridges, but on the whole they are in pretty good shape. Truck tires, however, are in short supply and a considerable percentage of the available trucks are laid up.

The transport picture is not a pleasant one. Without increased steel and rubber they are held down in the movement of coal. The steel and rubber people cannot increase their operations without coal. It is a vicious spiral of dislocation. For while I am told a considerable portion of the steel-making capacity of the country is in operating or in near-operating condition, steel production has so far been somewhat less than 3,000,000 tons a year, or about 3% of our own.

The housing situation is the worst modern civilization has ever seen. Twenty-five percent of the urban housing has been destroyed. In such places as Cologne and Essen the percentage is much worse.

We visited one mine property where we were told 70% of the workers live in company houses. Of these houses, 33% were destroyed, 27% were practically destroyed and the balance damaged—and when a German says "damaged," he means *damaged*.

Here we found people living under the rubble in the cellars of their old houses and in the windowless bomb shelters erected during the war.

In two small rooms, one of which probably had been a coal cellar and the other some place to store preserves, you will find six or seven people living. The roof above leaks when it rains. One woman told me she had to close the one window because the rats came in at night. Yet everyone of these places is spotlessly clean and the children are clean, and in each one of these little dark places you will find flowers on the table and some household keepsake hanging on the wall. And so it is all over.

There has been little repair work done due to lack of materials. Multitudes are living in conditions such as these—in the rubble of the basements. The average space for tens of millions of people is three or four persons in a room 12x12.

Water is seldom available except at some central point blocks away and, of course, there is little or no soap.

It is a difficult life, but, of course, efforts are being made to improve these conditions. The job is gigantic and has a priority which ranks after food, coal and transport.

Bad Money

Cutting a c r o s s and exerting pressure on all the other problems is that of bad money.

We here at home have some appreciation of the dislocation which even a mild inflation produces. Of course, in Germany, all the factors which produce inflation are present. Money in circulation bank deposits and debt have been tremendously expanded. Every necessity is in short supply. Every luxury has disappeared.

The German Government under Hitler exercised a rigid control over every phase of the economy. Every farm was rated as to how much it could produce and how much it must contribute to the economy. The number of animals, the amount of grain which a farmer could keep for his home consumption were extremely limited and, of course, all prices were set by law and wages were frozen. This rigid control has been maintained by the Quadripartite Government.

That controls have worked as well as they are working at present, is because the German people have been regimented so long they have the habit. But the old law of supply and demand is a hard law to legislate out of existence and a man with a wife and four children on a diet of 1,000 calories a day is not going to let them starve long if, by slipping a few extra marks to a farmer, he can get a little more bread and a piece of meat. The manufacturer is not going to let his plant shut down if he can find an extra motor or some packing somewhere, even at an absurdedly high price.

We know something about black markets ourselves and the resulting spiral of price. The farmer holds out some wheat, he hides a few eggs. The baker keeps a few loaves of bread under the counter. Gradually the black market prices rise under conditions such as these, until barter takes the place of trade.

Today they will tell you in Germany that there are three price levels. The LEGAL PRICE, the BLACK MARKET PRICE and the BARTER PRICE.

Here are a few of the LEGAL and BLACK MARKET PRICES taken from a list which I picked up in Dusseldorf:

	Legal Price Marks	Black Market Price Marks
1 lb. of butter	1 8/10	220
1 lb. of bacon	1 4/10	180
1 loaf of bread	4/10	25
1 pair of shoes	70	800
1 lb. of coffee	3½	480

When you look at these prices keep in mind that wages are also frozen. The standard rate of pay in a machine shop ranges from 8/10 to 1 3/10 marks an hour. In the building trade wages are a little lower, for at the time the wage rates were set in 1938, Mr. Hitler was discouraging building and trying to force the population into the machine shops.

Here is an example of what happens:

Speaking of his labor problem, a manufacturer in Dusseldorf said, "Our men lie in bed until noon and save a meal. They can sell the bread so saved on the black market for more than they can make for four hours work at the legal rate. It sounds cockeyed, but then the whole picture is cockeyed."

To get around the situation, the manufacturer himself has to resort to a barter set-up. In the mills he pays his operators the legal rate, but he allows them to take home some of the ends of the cloth—some of the seconds. In the brickyard he will allow the workman a couple of hundred bricks a week in addition to his regular pay. In the shops, such as locomotive repair, he will allow the workmen a few hours a week to make hoes or spades or pitchforks for their own use and the workman takes whatever he has made, gets on his bicycle and goes out somewhere to a farmer where he barters what he has for food.

This practice is sternly frowned on in our zone, but it goes on just the same.

From a business standpoint, this bad money situation produces another result. The manufacturer knows that sooner or later there will be a currency reform. It is very probable that if he has securities, they are likely to be repudiated. His bank balance may well be frozen or converted at a very steep discount. On the other hand, his plant and its contents will very probably escape and so instead of trying to pile up money, he hires all the labor he can get at the legal rate of pay to rehabilitate his plant. If he is able to produce, he is inclined to hide some of that production away in a condition where it needs only one or two hours work to finish it, in the hope that when a currency reform does arrive, he will have tangibles that he can sell. It has been pointed out that the currency reform may produce unemployment, for the reason that the manufacturer will dispose of his surplus help and go back to making money.

Germans everywhere are crying for a currency reform. The terrible inflation of the last war is fresh in their minds. Our people are drawing plans, but as in so many things, nothing can be done at present without the unanimous consent of the four occupying powers.

Increasing German Exports

There are many people who feel that there can be no permanent currency reform so long as all goods continue to be in such short supply. All agree that the one vital necessity is an increase in German exports.

To work on this tremendously important and heartbreaking job, our people have developed a considerable staff under Major General Draper, who is a mighty good man. They are seeking personnel and if any of you here have an idea that you would like to help in this challenging work. Draper would like to know about it.

Arthur Barrows, whom many of you know as a former President of Sears, Roebuck, recently has joined the staff as one of Draper's principal assistants and he is going to be a tower of strength in this work. It is a heartbreaking business, for if they figure to put Germany on an even keel, this export business must amount to at least a billion and a quarter dollars a year. Last year they hoped to export 300 million, but the result, due to the conditions I have outlined, and the terrible winter, brought the figure nearer to 100 million than 300 million.

Germany today is exporting coal, lumber, flax, etc.—direct products of the land.

One of our government agencies is supplying raw cotton for textiles. A portion of these textiles has been sold by the same agency to other governments and the balance will flow into the German economy to pay them for fabrication.

Deals for exchange of commodities are being made with other countries, as you perhaps noticed in the papers, but these are not as simple as they sound. They take a lot of negotiation and they are not the overall answer. In the long run the answer must be the reestablishment of individual transactions as differentiated from government deals and these must form the backbone of the export trade.

But remember: Germany is still an enemy country. All the limitations of trade with the enemy apply.

German styling has been out of touch with the world markets for years. All mail of necessity is censored and the problem of John Smith in the United States trying to buy from Hans Schmidt in Germany is an extremely complicated one.

Little by little our people are ironing out these problems as best they can, but it is a slow, labori-

ous, frustrating business and the results so far are disappointing.

Economy Running Down Hill

On the overall, I am afraid my conclusion was that the economy is at present running down hill. Stocks of spare parts and supplies are diminishing. People are wearing out the clothes they had. You see this particularly in work clothes, work gloves and shoes. The continuing depreciation of the currency is bad.

While it is hard for an outsider to judge, I am afraid public morale is on the decline. It is hard to expect anything else when you realize what these people have gone through in the last two years, during which they have seen the value of their currency grow less and less; they have been on short rations; badly housed; without heat through the bitter weather. They have seen many of their plants dismantled and carried away. At all levels there is the constant fear we and the British will get tired of our job and leave Germany to Russia and at all levels the Communist spreads discouragement and dissension.

As I have said, I am not an expert, but I believe we can save the situation if we wish to do so and are willing to pay the price. I believe every businessman would agree with me that the first requisite to any material progress is a clear concept of what we wish to do.

When we started to share in the occupation of Germany in 1945, it was on a concept which generally is referred to as the Morganthau Plan.

The Allies agreed that never again should Germany be in a position to hold the world in jeopardy. Plants having war potentials were to be dismantled and shipped out of the country. Germany was not to be allowed to produce materials, such as aluminum and ball-bearings, used in modern warfare. The Nazis were to be destroyed. They were to be tried. The most notorious were to be executed. Others would be imprisoned and still others would be allowed to do only manual work. The cancer of the world was to be cauterized.

To this concept, the Four Powers agreed, and in Quebec and Potsdam they implemented the idea with decisions as to policies and plans.

Germany was to be administered as an economic unit. It was assumed that the four great and good powers which had liberated her would continue to be in full agreement on all policies and laws affecting the country as a whole and no law was to be made or changed except by unanimous consent.

Physically the country was divided into four zones — each power accepting the responsibility of administering the laws agreed upon in its particular zone.

Our Economic Illusions

Berlin itself was divided into sections in the same way.

As the months passed by, we at last came to the realization that a healthy Europe with Germany reduced to a pastoral state was impossible and those conclusions were finally crystallized and presented in the clear reports of Herbert Hoover. In these reports he lists what he terms our "economic illusions." One is, that Germany can be reduced to a pastoral state, unless we are willing to remove or exterminate 25 millions of her population. Another is, that Europe as a whole can recover without the economic recovery of Germany. And he says: "We can keep Germany in these economic chains if we wish, but we will also keep Europe in rags."

Biting Off Our Nose to Spite Our Face

It appeared that perhaps in the "eye for an eye" and a "tooth for a tooth" policy, we were biting off our nose to spite our face, and we began to suspect that perhaps our Eastern Ally, with his stark realism, was quite content to see Europe go to the dogs and was, therefore, unwilling to change or cooperate with any changes in policy. The overall result was an agreement with the British: the U. K. and U. S. zones were combined and the general instructions were changed from those aiming to reduce Germany to a pastoral state to instructions to get her on her feet. Of course, typical of our method, we did not rescind the existing instructions or rules, we just added new ones. As a result, as nearly as I can make out, when I was there the instructions under which our people were seeking to bring Germany back economically ran something like this:

Get the railroads of Germany back in full, efficient operation, but be sure not to use any employees who have ever said "Heil Hitler." Bring up coal production, but be sure and tell the men that if they don't like their bosses, they have only to denounce them as Nazis and they will be pulled off the job. Allow the British to tell the mine managers the properties are going to be nationalized, so they won't have any false illusions about making money. Encourage new products, but let all the inventors know they must license their inventions to anyone who is interested. Make them get to work to build freight cars, automobiles and household goods, but to promote public morale, go ahead tearing down the ball-bearing plants and the machine tool plants and remember: "They are not to be allowed to make aluminum or any material that might be used in modern warfare."

It does not take an expert to see how cock-eyed this is. You don't have to be an economist to realize that you can't make a self-sustaining Germay and at the same time reduce it to a pastoral state. It has to be one or another.

I am told that very recently a new general instruction has been issued, but I venture to guess it still requires some Philadelphia lawyer to interpret it.

Parenthetically, I would also venture to guess that if we follow our national pattern, some day, sooner or later, someone will be made the "goat" for the lack of progress in Germany to date. And my guess is, it will be General Clay. So for the record I would say, that in my humble opinion, in or out of uniform, Clay is one of the top-flight men of our country. Of course, he suffers from the occupational disease of the trained soldier. He believes in obeying orders.

In my opinion, any civilian faced with the vacillating and conflicting instructions of the past two years, would have walked out on the job long ago and I doubt if in so doing he would have improved the results.

Need for Increased Capital Investment

But to come back to our subject —while a clear, concise statement of policy is the first requisite—we must also face the necessity of a largely increased capital investment.

Everyone knows you don't save people's lives on a 1000 calory diet. All you do is change the marking on the death certificate from "Starvation" to "TB" or "Anemia."

It is just as true that you don't put industry back on its feet by giving it a ton of steel a year. All you do is watch it dry up instead of seeing it bust.

How much capital will be needed? I haven't the slightest idea. Perhaps after the Marshall talks are crystallized, it will be easier to obtain an estimate. Perhaps if we follow Mr. Hoover's suggestion and conclude a separate peace, private capital may well supplement public funds. Certainly such funds must be considered not as a humanitarian dole, but as risk capital, which we have a good chance of reclaiming if we succeed; and that brings us to the Sixty-Four Dollar question: "Is it worthwhile?"

Many persons feel Europe is done and instead of trying to bolster the crumbling structure of a complex economy, we should let Europe sink to a self-sustaining level from which she could build whatever structure she had the ability and fortitude to develop. They feel at the same time we would benefit through the readjustment of our own economy which would result from the abandonment of our role of world-saver.

These same persons feel that the fears of Russia as a military threat are groundless and that experience shows her ability as an industrial competitor is greatly exaggerated.

There is a good deal of validity to this viewpoint, but there is an answer and it goes something like this:

The danger today is not Russia as a military power, but as the absolute master of Communism. You make a great mistake if you think of Communism as a party. It is a weapon which Russia absolutely controls. It is a faith, a militant faith, which thrives on misery and discontent; which breeds in its converts a hope for the future and an undying hatred of those who oppose it.

As a matter of fact, whether you think it or not, you are in a war with Communism right now. To them, at least, it is a "Holy War" in which quarter is neither asked nor given and you are fighting an enemy who feels about you and about me as our grandfathers felt about the Indians: "There is no good Indian but a dead Indian."

Keep Germany in chains, keep Europe in rags, and you will have a communistic Europe.

Further, don't cherish the illusion that once Communism attains political power in a country the people of that country can shake it off with ease. For, as the Chicago "Tribune" pointed out in an excellent editorial last week, dictators provide themselves with an apparatus of spies and a course of punishment for dissenters that prevents organized opposition.

If Russia through the use of this weapon once dominates the skills of Germany, France and Italy, and particularly the technical skills and the productive capacity of the German people, she will control the mightiest aggregation of power the world has ever seen. Allow this to happen and the menace of Russia as a power will be so real that you and America will find yourselves living in an *armed camp* and if you don't think that will cost you money, look at the cost of the last war.

So, you might better spend a few billions now in the attempt to keep the frontier of western civilization on the River Elbe, than allow the iron curtain to be erected on the Atlantic.

Such is my answer. Of its validity I am not in a position to judge.

If I have succeeded in getting you thoroughly confused, then I have reduced you to the same state in which I find myself.

While I was in Germany, I saw several Americans who came for a day or two and had all the answers pat, but I think I stayed too long and saw too much to be absolutely sure of anything.

Of one thing only I am sure and that is that most of the people with whom I came in contact are not today actively interested in the academic consideration of some way of life. They are about in the same position you and I would be in under similar circumstances. Their interest and their every effort is in the struggle for existence and it is a grim struggle.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market dullness now points to renewal of up-trend. Support range now in sight.

Last week was notable for at least one thing. Trading was at lowest ebb for the year, a condition that is interesting in passing but hardly cheery news for either the brokers or the majority of traders. The first group can't make ends meet under such conditions; the second can't see any profit in a market that doesn't even bother to yawn.

* * *

During this inactivity one thing happened to readers of this corner. Bethlehem Steel, which came into the list at 83, broke its stop of 87. True, the dip wasn't anything to raise anybody's blood pressure. It was just a fraction. But it was a violation of a pre-conceived support point and so dropped from the list.

* * *

Oddly enough and despite the dullness, not to mention the breaking of a support point in the single remaining stock in the list, the market acted better than it has in some time. There have been a number of opportunities for prices to start sliding. For some reason I can't and won't explain, the market has remained firm. I haven't the remotest idea what it means. Maybe it doesn't mean anything. It may even be a condition aimed to lull the careless trader into a feeling of false security. The fact remains, however, that up to and including last Tuesday, the long threatened turndown seemed to be averted.

* * *

There are of course deeper basic reasons for this. You can find those buried in daily newspaper stories coming in from all over the world. I won't try to point out which they are. It will take too much space and besides it's too hot to discuss international economics and diplomacy.

* * *

What all this adds up to market-wise is that the bend-over of the last few weeks seems to have reached a level that not only promises to withstand any further reaction, but, what is more important, indicates a reversal of trend with prices headed up.

What to buy in such a case should get almost a blanket reply. Paradoxically enough the steels which we just sold and the leaders like the motors will probably do as well if not better than the market. A rule of thumb you can think about says that stocks which have gone off the least during a reaction will go up the most during a rally. If you take a list of stocks you can probably make your own conclusions.

* * *

Stocks are now about 177 in the familiar averages. Somewhere within a point lower or so they give signs of turning around. If they perform according to rote a rally to about 183-185 would be indicated.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Glore-Forgan Offers Libby, McNeill Debs.

Glore, Forgan & Co. headed a banking group which made a public offering August 26 of a new issue of $15,000,000 20-year 2⅞% sinking fund debentures of Libby, McNeill & Libby, priced at 100.50 and accrued interest. Proceeds from the financing will be used for redeeming the company's outstanding $6,450,000 serial debentures, with another $6,000,000 tentatively allocated for additions to, and improvements and betterments of, capital assets required for the company's increased volume of business and efficiency of operation. The balance will be added to working capital. After completion of the financing, Libby's capitalization will consist of this issue of debentures and 3,627,985 shares of outstanding common stock.

Libby is understood to pack a greater variety of foods under one label than any other organization in the canning industry. It operates 44 plants in the United States, Hawaii and Alaska, with subsidiary operations in Canada, England and Belgium. The company and its wholly owned domestic and Canadian subsidiaries for the year ended March 1, 1947, show consolidated net sales of $127,110,575 and consolidated net profit before interest and income taxes of $8,567,418; the corresponding figures for the preceding fiscal year are $100,710,240 and $4,086,505 respectively.

As We See It

(Continued from first page)

the network of fiat currency rates which sometimes gets in the way of more profitable British purchases in areas other than the United States. What is actually happening is that the authorities of the United States and of Great Britain are undertaking to maintain a price for sterling which current market conditions will not sustain. Whether such a rate can ever sustain itself is a matter of opinion, of course, but the future should be required to bear at least the carrying charges upon the funds now expended to maintain the rate in question.

Arbitrary Rates

We are, naturally, well aware of the disadvantages of fluctuating rates of exchange. We have not forgotten the competitive devaluation procedures which bore so heavily upon international trade prior to the outbreak of World War II. We hope no one will suppose that we are advocating a return to that type of chaos. What we are saying is, first, that with domestic costs and domestic prices more or less fixed in any two countries, it may well prove impossible to hold constant the value of one of these currencies in terms of the other. It will certainly prove impossible if the rate is one different from that which the market itself would fix, and such adjustments in the internal economy of either or both of the countries as would be necessary to bring the market into line are forbidden in the premises.

What we are saying is, second, that attempts to fix both the currency rates and domestic prices and wages in such a way that the whole is internally inconsistent—as indeed it is all but certain to be—are not only foredoomed to failure but certain to "bring but grief and pain for promised joy."

The same general principles apply, of course, in the domestic economy, and the same defiance of these principles—or, perhaps, lack of awareness of their existence—are found on all sides. In the first place, let us consider in cold blood, quite removed from the passion and the heat of political or even humanitarian arguments, this apparently everywhere prevalent notion that retail prices too high to permit every one in the nation to buy all he wants of everything are always a sort of calamity. Of course, prices of the real necessaries too high to permit any large segment of the population reasonable access to them would be unfortunate, and in the more extreme case, even calamitous. But how far should this line of thought be extended into the field of luxury items or even semi-necessaries? Obviously, lower prices will not increase supply.

Note well the fact that what is complained of is not an oversupply, but inability to buy at current prices goods which can hardly be super-abundant in view of the fact high prices are easily maintained in the face of the alleged disability to buy. Lower prices could in such an eventuality only mean at most that certain elements in the population could have more at someone else's expense—provided they got to the market first.

Broad Principles

But let us view the situation in the broad. If the price of any commodity or services is high or rises in such a manner as to afford a large profit—as is now so often alleged of current prices—either there is a diversion of capital and labor to the production of it so that supply is enlarged, or consumption of the article is reduced. The more really "necessary" an article is the less consumption is reduced by increasing prices—and accordingly the more likely that production of it will be increased as a result of the higher price. The more easily the rank and file can do without an article, the more likely that consumption of it will be reduced upon the appearance of higher prices, and the more labor and capital will be freed for the production of those items which are really necessary to a normal existence. Is this not a rather constructive process—much more likely to enlarge and enrich human existence than are the nostrums of the politicians and economic quacks?

Of course, in some instances nature more or less fixes the maximum production of a given good or service. In such a case higher prices have the tendency to divert demand to some other or substitute material. The net result in this instance, or one of them, is that the relatively scarce material is conserved and the more abundant consumed. Consider the case of petroleum products today. We find that so tremendously enlarged has consumption of these products become that refining capacity, transportation capacity, and even available raw materials are being strained to meet the demand—but without success, at least in some parts of the country. Why?

There are many reasons, of course, but we shall confine ourselves here to only one general aspect of the situation. In the first place non-competitive conditions among both producers and wage earners in the coal fields have raised and maintained coal prices at figures a good deal higher than otherwise would obtain. These monopolistic practices, along with the utterly irresponsible and unpredictable behavior of the labor monopoly, have made many, many consumers feel that, even at a somewhat higher price, they preferred not to be dependent upon coal. Again, the oil companies, enjoying excellent profits, have felt it wise not to take full advantage of existing conditions. Whatever the pack at Washington may howl, the oil companies have been "public spirited." But a relatively limited supply of crude oil is not being conserved, as it would be if current almost astronomic demand were being permitted to fix prices!

This whole question is in need of careful reconsideration by the rank and file.

Ruhr Coal and European Recovery

(Continued from page 7)

dustrial products. Before the war, the German industry was the source of supply for the great bulk of European machinery and precision instruments. For instance, half of the Netherlands industry is equipped with German machine tools. Some European countries had hoped that the limitations imposed upon German industry would enable them to capture German markets. But in many of these countries, the domestic industry cannot make use of that opportunity because it cannot work efficiently without German equipment and especially without German spare parts. Thus some countries, like the Low Countries, the Scandinavian countries, and Austria that would have most reason to see German heavy industry condemned to perpetual stagnation, today are among those that ask most loudly for the revival of German heavy industry which has to furnish them with urgently needed parts.

Finally, the lack of German coal production has made it necessary for the U. S. and U. K. Governments to come to the help of the German people in order to avoid wholesale starvation, disease, and unrest. Since Germany, largely because of the lack of coal, cannot produce the food and other subsistence goods which the German people need for survival, these commodities must be imported from the U. K. although other European countries, many of them our allies during the last war, also are in great need of these goods, and although such exports are a tremendous burden upon the U. K. and in a lesser degree a burden upon our own economy. To a certain extent, the present exchange difficulties of the British people are due to the exports to Germany. Moreover, these exports must be financed temporarily at least out of budgetary receipts, which means out of the taxes paid by the British and American public. We don't consider them to be gifts to the German people, and we hope to be repaid in future years. For the time being, however, the economic effect of these expenditures is not much different from that of unilateral contributions.

How Can Coal Production Be Increased?

Thus the problem of increasing the coal production of the Ruhr is of the greatest interest not only to the Germans, but also to all European countries and to the British and American taxpayer. In fact, it is one of the few points on which all nations of the world are in complete agreement. The question is only, how increased production should be attained. The experiences in the fall of 1946 and the summer of 1947 have shown that an increase in goods made available to the miners, especially food, housing and other consumer goods, will bring about an increase in output. But such supplies have either to be taken away from the rest of the German people, whose meager rations do not leave room for such measures, or again, have to be financed by the occupation powers. The British obviously are unable to take over additional burdens, and so the expense of such an incentive program would have to be borne by the U. S. The cost certainly would be worthwhile, even in terms of dollars, since every increase in coal production lessens the strain on our own economy by the demands of other European nations for relief grants or credits with which to purchase our own scarce coal. However, it is hardly possible for us to pay for such a program without having a controlling influence upon its execution. The Ruhr is in the British zone, and British ideas of management and ownership are sometimes somewhat different from our own. It is incorrect to say that the British are bent on socializing the Ruhr mines, or to say that we are absolutely opposed to socialization, but it is true that there are some differences of opinion. The first question is whether or not we can expect the mines to be better managed by the occupation authorities or by the Germans themselves. Everybody acquainted with military government procedures will agree that German management would be more efficient. Then the question arises, who should do the managing. The old masters of the Ruhr coal cartel were among the major German war criminals, and we cannot think of restoring the crucial European industry to their control. Such a step would not only produce the danger of outright sabotage of our efforts toward European cooperation, but also arouse our most faithful friends in Western Europe against us. But where to find German managers not tainted by too close collaboration with the old Nazi gang? The British argue that only socialization can solve that dilemma, while we point out, first, that the Germans themselves are not too happy about that idea—the German bizonal economic council, elected by the legislatures of the German states, just has appointed a strictly anti-socialist directorate—and, secondly, that the inexperienced German democratic bureaucracy would be even less efficient than the experienced British administration. The present discussions certainly will lead to some compromise, but only the future can tell whether it will be practicable.

Where to Allot the Coal

Another problem is, what to do with the increased coal output once it is mined. We cannot expect production to increase so much that the domestic as well as the export demand will be fully satisfied. A few days ago, the German bizonal economic council submitted an economic plan for 1947-48, based upon the production of 70 million tons of hard coal as against 54 million in 1946-47. At the present rate of output, this figure appears reasonable. The council, however, wishes to cut exports substantially below the 1946 level, and to devote not only a larger part of the present output but also the entire increase to German consumption. This is understandable because the needs of the German economy are closer to the heart of the German people and its representatives than the need of the rest of Europe; moreover, it can be argued that German miners will be spurred by the knowledge that all increases will accrue to the German economy. But such a solution obviously would not be acceptable to Germany's neighbors that need German coal as urgently as Germany itself. In contrast, the coal distribution plan agreed between the US-UK zonal authorities and the French in the spring of 1947 would allocate to exports the present quota plus about one-fifth of the increase in output. Obviously, the French will not agree to the execution of the coal program to be turned over to German authorities, unless they are satisfied that their import requirements will receive due consideration.

Once the question of allocating coal is solved, the problem remains what to do with the coal reserved to the Germany economy. The German council proposes to allocate only 10% of the German quota to household consumption despite the hardship which such a small allocation is bound to cause. The resumption of German industrial production is indeed more important than the comfort of the German population—although too much discomfort may force the population to spend a disproportionate amount of time on the search for other fuel (woodcutting) and induce pilferage and black market operations. Still, the problem remains whether to use the remaining 90% of the German quota mainly for the production of export goods, or for the production of goods destined to German consumption. The diversion of too much coal to production for the German market will leave the needs of the victims of Germany unsatisfied—and indirectly force us to grant further aid to those victims—while a diversion of too much coal to the production of export goods will hurt German labor morale and efficiency, and in addition make necessary further relief imports into Germany, thus again in the last resort burdening the U. S. economy.

So you see how closely related the coal problem is with that of the level of the German industry, and with our own contributions to the recovery of Europe. We can only hope that the participants in the conferences will contribute to the solution of the over-all European problem by keeping in mind the broad implications of their decisions. Their main goal should be not just an increase of so much per cent in the production index of such or such country, but the reintegration of the entire European economy. That alone will bring about not only economic progress but also, more importantly, the prospects of permanent peace.

Joins L. M. Greany Co.

Special to THE FINANCIAL CHRONICLE

CLEVELAND, O.—Roy C. Harlow has become associated with L. M. Greany & Co., Fidelity Building.

Why Upset the Apple Cart?

(Continued from page 12)

as five men. In 1902 workers on public work had their hours cut to eight daily; this was really the starting point of the eight-hour day. Wages now went up to $19 per week with an annual increase of 50 cents and two increases of $1 for the next three years. The employers now keeping about the same hours as the men and taking from earnings about as much as six or seven men. Along about this time was the beginning on a large scale of so-called management in industry; small businesses either enlarging or disappearing. During the period from 1903 to 1905 wages had risen to $21 with hours still at nine. In 1906 the movement for eight hours began throughout the country and by 1910 it was almost universal, for the more skilled craftsmen. Wages again started upward with yearly increases of $1 per week so that by 1913 they stood at $24. The employer at that time taking from earnings as much as eight men and coming in about ½ an hour after the men and going home about ½ an hour before the men.

Now we arrive at the period just preceding World War I. From then on our whole economic system was thrown into a very disordered state. When we actually entered the war many different government bodies were set up, chiefly, from the businessman's point of view, the War Labor Board. The administration in carrying on the war set up a cost-plus system. Wage increases during this period (1916-1920) were so many and so varied in the different industries that it is difficult to put them in chronological order; however, at the end of the war they stood at between $40 to $50. The cost of living had risen to such heights that it was imperative to raise wage rates to successfully carry on the conflict. During this period the employer was coming to work an hour after the employees and quitting an hour before them. His share was now up to as much as 10 men.

Wages during the period from 1921-1947 have risen to a range of between $60 to $90; of course in many industries and in different sections of the country, they were lower and in some few instances higher. The employers and management during this period also benefited in various ways. The reason for this long-winded exposition of the wage and hour history of the last 50 years, will, through this method show more clearly, how the trend has been ever upward and onward, than a table of dry statistics, which fail to show how betterment was achieved by all. The present-day standard was achieved by great suffering and financial loss to both capital and labor; the pitiable part being that the most violent strikes were for such pitiable gains, while today we see increases granted to workers of $10 and more (with holidays and vacations), amicably, through conferences between employers and labor groups.

During this period employers were able to plow black into their businesses sizable amounts; workers constantly going to a higher standard of living through a higher purchasing power; going from the oil lamp to gas light to electricity. The universal use of electricity was responsible for thousands of new businesses being born; electrically operated machinery making for more economical production of all kinds of consumer goods. The worker was no longer compelled to live in a cold water flat with his heat supplied by the kitchen stove, his standard rose to hot and cold water and a central heating plant. With the advent of the automobile the standards of all groups rose by leaps and bounds; thousands of new businesses owing their inception to the introduction of the internal combustion engine.

All Ahead Socially, Morally and Financially

From the foregoing it would seem that we are all ahead socially, morally and financially; thus, confounding that school of "disastermongers" who were unable to predict the most elementary economic changes of the past, but can, with almost astronomical precision, predict the future.

There is no argument about the seriousness of strikes and the loss and suffering that they entail, but who is there to say that they had no redeeming features? Without strikes we would certainly be much further along the road to catching up with the pent up demand for goods. With the drop in prices on the various exchanges from last September to May, with business good and the whole world crying for the products we were producing, we can only guess what the drop would have been like if our industrial machine had not been held down a little by strikes. Already the market is filled with radios, washing machines and refrigerators, and other so-called heavy goods are appearing in sizable numbers in the retail outlets.

Many of the analysts are doing a good and necessary job; where they really have something to say, they are distinctly an asset, but where they deal in generalities or do a daily stint just to earn their salaries, they are doing a disservice. The inventories in piffle are piling up; there is so much of it around. Get a load of this: "If no serious international crisis develops, if strikes are held to a minimum and earnings stay at their present levels or go higher, we can be confident that there will be no excessive recession." Oh! brother, is we is, or is we ain't!

The foregoing paragraph, with its little touch of George Adeism, brings to mind the seriousness with which the banker of 50 years regarded himself. Quite a change has taken place in the "business dignity" within the period under review, which may also properly come under the head of economic revolution. Fifty years ago when one went into a bank it was pretty much like entering a church; the employees from the President down, wore a sombre expression, and a smile, mirth or a cheery word, was not within its portals. The financial journals were likewise very staid and conservative; the text dry, the statistics even dryer. But, praise the Lord, the present day shows many changes. The news is presented more colorfully and cartoons are becoming regular features. Addresses are reproduced verbatim, by prominent men in the banking and financial domain, that bristle with very amusing anecdotes. Going into a bank you hear: "Hi Joe," "Hello Harry," "Howdy Tom," etc., oftener than "Mr." The personnel now have a pleasant smile and the banks no longer have that morgue-y look. You do not expect to see top officials with sideburns or beards, to instill confidence in their customers. Certainly the vast majority of men in the financial world no longer take themselves too seriously; they have their part in the world's affairs and they are playing that part without makeup. We still have some "John Apleys."

The Matter of Prices

Still keeping on with our "stop worrying" thesis, let us take up the matter of prices. Even with a "seller's market," it must be obvious that prices, notwithstanding higher wage rates, would come down with imperceptible drops in earnings. The reasons are: that with all manufacturers striving to get to the market as fast as possible with their products, that it was inevitable that overtime, with its unavoidable time-and-a-half and double-time pay added to the payroll, would necessarily reflect itself in the higher cost of the product; the higher cost of materials, as the material fabricators had the same problem; the inability to get these materials as fast as necessary to have the plants function at their top levels; and as Roger Babson so aptly put it: "Too many research laboratories are working on new products to tempt our housewives, rather than reducing the cost of existing products." Taking just one item as an example; a certain plant, let us say, makes 1,000 units per week, two castings are bolted together with 12 bolts (three each on four sides): the engineers discovered that by making the bolts 1/32 inch larger they would need but two on each side, saving four bolts; this more than offset the slightly higher cost of the heavier bolts; the saving in time in having eight less holes to drill and four less to tap, with four fewer assembly operations, saved the concern 1,000 hours per week, a sizable saving on this one operation.

Politics

We come now to politics, a subject that is a matter of opinion. Fifty years ago, probably just a little more, there were a handful of political opportunists called anarchists; they were pictured (as today), with beards, a sinister look and a bomb in one hand. Then came the socialists; they were also variously described as undesirable, dangerous, un-American, etc. At one time they managed to elect five men to local office in New York State, but the ruling powers of the time refused to seat them. In retrospect, we now know they were a very harmless and innocuous part of our citizenry. Now, the whipping-boy of the time is the communist; same old story, beard and bomb. One statistician figured that there is ⅛ of a communist per 1,000; where he got his figures is a mystery, as many States do not even allow them a place on the ballot. If half of the time and one-tenth of the newspaper space now being used in belaboring them and bewailing their growing importance should be used in advocating something constructive, we would all do less worrying. A businessman who has something on the ball will make a go of it under any political system. The important thing is to keep an eye on the politician that is in.

What about the cost of living? Everything is very much higher than it was. The value of the dollar has shrunk so that it is only worth about 61 cents; but most of us have so many more dollars to take care of this imbalance. A committee has just been appointed to study the cost of living. Why? One need but take a newspaper of today and compare it with one of three, six, or 12 months ago. Newspapers all over the country have been carrying food chain-store advertising, so there is no mystery that has to be solved by a long-winded investigation.

One of the most powerful business organizations is the National Association of Manufacturers. It also does more worrying than any body of its size and influence. The probable cause that induces that "worry complex" is that the NAM has always been notoriously negative in its outlook; changing to a positive outlook will be an innovation that will be beneficial to all. Our economy has become so complex and we are all so dependent on each other that it becomes necessary to approach our problems with that fact in mind. Owing to our colossal debt and our national and international commitments, it becomes a must on our agenda to keep up the purchasing power of all. It is absolutely vital that the wage rates be maintained and even brought higher, especially in the lower income groups. Tackling some problems of a constructive nature would be a step in the elimination of worry by members of the NAM. A few proposals are submitted herewith that could be brought up at the next Convention of the NAM. Our economy has never been static, but, for the past 50 years, has been moving at a progressively faster pace, with a resultant benefit to all except those who have fixed incomes or pensions. The *status quo* has fallen into disrepute.

Some Proposals

In view of our necessities halfway measures no longer suffice, we must get drastic in our proposals. Some of the suggestions may seem radical if viewed by other-day standards but today it is essential that these or similar topics be taken up and discussed, rejected, or acted upon:

(1) National Debt—Discuss the matter of the public debt to see if it is advisable to amortize same in a period of 20 years. The amortizing of the debt being accomplished very much as a private individual would amortize his mortgage to a building and loan association. This would return to the bondholders so many billions a year; this huge sum would be used differently by the recipients, some spending it to purchase goods, some to build homes, others to start a business and purchase securities. No matter how it is spent it will assure prosperity for 20 years, besides lowering the tax burden each successive year.

(2) Our Southern Market—Study the subject of raising the purchasing power of the South through raising the workers' wage rates. The foreign market at this time is abnormal, standing at around $20 billion, normally it stands at around $5 billion. Must we risk the danger of war to hold this $5 billion market when right at our own doorstep is a $20 billion potential market, that but needs exploiting. Then there is the selfish added interest of having the South pay its just share of running the government, through the higher payrolls. The North and West now pay a disproportionate share to make up the shortage of South's per capita. The people who would benefit most through a higher minimum pay are our Southern citizens; nevertheless the opposition to such legislation seems to come mostly from the South.

(3) Universal Currency—With the United Nations now in session the time is appropriate for a movement toward a universal coinage system. The United Kingdom, Canada and the United States are now holding conversations toward that end, why not go "whole hog" and take in the world? The inauguration of international coinage would do much to better business relations throughout the world. Inasmuch as many countries are on a metric system and the money system of the United States is on a metric system it may be possible to put this proposal before the UN with a recommendation "to adopt the dollar as a standard." With the minting of a "mill" coin for the benefit of the nations with a very low exchange rate, and by stamping their coins with both values, the turnover to the dollar standard could be brought about with a minimum of confusion. Business should find this constructive.

(4) Wages—A very important item for consideration should be the uniformity of wage rates between a plant that has contractural relations and so-called open shops. Plants in the same industry and region should maintain the same wage rates for the following reasons:

(a) Using arbitrary figures, if one plant pays its employees $15 a day and the other plant pays $12, the man receiving $12 is paying the government $3 less per week in income taxes than the man receiving $15, and some of the bright boys in the taxing agencies of the government will realize this fact and will institute legislation to remedy this discrepancy. Voluntary action by members of the NAM will obviate more legislation, with its "ifs," "ands" and "buts."

(b) The employer by paying $3 less a day is curtailing the buying power of his employees by $15 a week, just about the margin above the necessities, which could be used for purchasing workers' capital goods.

(c) By having a lower production cost through payroll saving, the lower-paying employer takes an unfair competitive position.

(d) The unrest caused. The management of the higher-paying plant becomes discontented with the pay differential of his and the lower-paying plant and would like to pay its employees $12, whereupon the lower-paying concern would reduce its workers to $9, and this process could continue with the most disastrous results to our buying-power.

(e) Shortening of Hours—This subject is extremely controversial and the pros and cons are myriad. At the present time business in general has huge backlogs of orders, consequently most businessmen are inclined to treat this matter lightly. As soon as this backlog of orders diminishes and inventories start to pile up, business should be ready with a plan to prevent any layoffs, with their inevitable curtailment of purchasing power, also owing to the fact that layoffs on a large scale have a bad effect on the morale of those still employed, through the fear engendered as to their status.

A depression probably demonstrates more forcibly the working of the vicious circle than any other calamity that can befall any nation. When any sizable number of men are laid off in a plant they immediately cease to be consumers; the men who still retain their jobs, are so fearful that they may be the next to be laid off, buy only what is absolutely necessary, making them "half-consumers." This routine is also followed by business; in times like that, all businesses immediately cease their purchasing. The proper procedure in periods of slack would be for business to replace obsolete machinery, do the expanding that has been planned, take care of needed repairs and modernize the plant generally. But, no, fear has already taken such a hold, that it seems foolhardy to spend when the future is so uncertain.

The overhead of very large corporations is such nowadays that strikes should be eliminated by every means possible; management should be alert to prevent them by negotiating new contracts before the old ones expire; this would certainly be the wisest procedure, as the new contracts can be negotiated without the heat brought about by an ultimatum by either side. How a strike works out for a large corporation can be seen by looking at the earnings and balance sheets of the telephone company.

There are billions of apples around. They are not rotting, and millions of us like apples! So **Why Upset the Apple Cart?**

President Releases Mid-Year Budget Estimate

(Continued from page 11)

cal year ended June 30, 1948, are now estimated at $37.0 billion and net receipts at $41.7 billion. On the basis of these estimates, a budget surplus of $4.7 billion is indicated.

Expenditures—When I transmitted the budget last January, expenditures during this fiscal year were estimated at $37.5 billion. The present budget estimate is $37.0 billion. The difference is the result of many changes. Some have tended to increase and others to reduce the total. A reduction of $1,520 million is the result of Congressional action. On the other hand, revisions and amendments which I have found necessary have added $638 million. Changes listed later under other headings have added $354 million.

In preparing this review, it has not been possible to estimate the ultimate effect on the budget of the emergency situation overseas. The amount that may be required to enable the United States to bear its proper share in world recovery cannot be determined until a later stage in the studies of the international situation now under way. The present uncertainties must be taken into consideration in deciding our budget policy. They emphasize the need to maintain a balanced budget with sufficient surplus to meet emergencies.

Receipts—The new estimate of net budget receipts is $4.0 billion above the estimate of $37.7 billion included in the budget in January. Of this increase $1.1 billion results from the continuation of war excise tax rates, which I recommended in the January budget. But the greater part of this increase is due to the rise in prices and national income above the levels anticipated in January.

Surplus—In the fiscal year 1947 the budget was balanced for the first time in 17 years and a surplus was achieved—which in the long run is the only way to retire debt. As long as our total postwar commitments are still uncertain and as long as we are under strong inflationary pressures, it would be reckless not to include a reasonable surplus in the budget. In the light of present conditions, the estimated surplus of $4.7 billion for the fiscal year 1948 is essential to sound fiscal policy. The surplus, together with part of the present cash balance, will be devoted to retirement of the public debt.

The same prudent policy of planning for a surplus and for further debt retirement will be followed in preparing the budget for 1949. The strictest economy consistent with the Government's obligation is imperative. I have already instructed the executive departments and agencies to hold their 1949 budget requests below the 1948 total. In a number of cases I have established certain definite limitations.

Appropriations and Contract Authorizations—In the budget transmitted to the Congress last January, I recommended appropriations of $31.3 billion and contract authorizations of $1.5 billion to finance Government operations during the current fiscal year. Subsequent amendments to the budget through July, and 1947 appropriations delayed to 1948 have raised the totals thus far recommended to the Congress to $32.3 billion for appropriations and $1.6 billion for contract authorizations. The 80th Congress at its first session enacted for the fiscal year 1948 appropriations and reappropriations of $29.8 billion and contract authorizations of $2.0 billion.

I anticipate that at its second session it will be necessary for the 80th Congress to provide supplemental appropriations and $1.3 billion and additional contract authorizations of more than $300 million. The Congress itself has recognized that some of its reductions, such as those for tax refunds and the Atomic Energy Commission, will have to be restored. The estimates for supplemental appropriations include $848 million to restore such reductions made by the Congress. The remaining $403 million of appropriations and $317 million of contract authorizations relate for the most part to items on which the Congress has deferred consideration. Thus, present indications are that the final total of appropriations and reappropriations will be about $200 million lower than I recommended last January and the final total of contract authorizations, about $750 million higher.

Rescissions—The Congress also rescinded wartime appropriations and other authorizations of $4.1 billion. Most of this would not have been spent. The resulting reduction in expenditures during fiscal 1948 is estimated at $153 million.

Major Changes Since January—Let us now review the three principal ways in which the January budget estimates have been altered. Necessary amendments and revisions of my original recommendations have added 3% to the total of appropriations, 27% to contract authorizations, and less than 2% to expenditures. Revisions due to delays and transfers between fiscal years add 1% to appropriations and less than 1% to expenditures. Congressional action—following a vigorous and searching review of the budget—has reduced appropriations 5%, increased contract authorizations 21%, and reduced expenditures 4%. In total, all these changes have reduced the expenditures side of the January budget by 1.4%.

On the receipts side, there is an increase of 10.4%.

Table 1 shows the dollar changes since January in totals of appropriations, contract authorizations, and estimated expenditures.

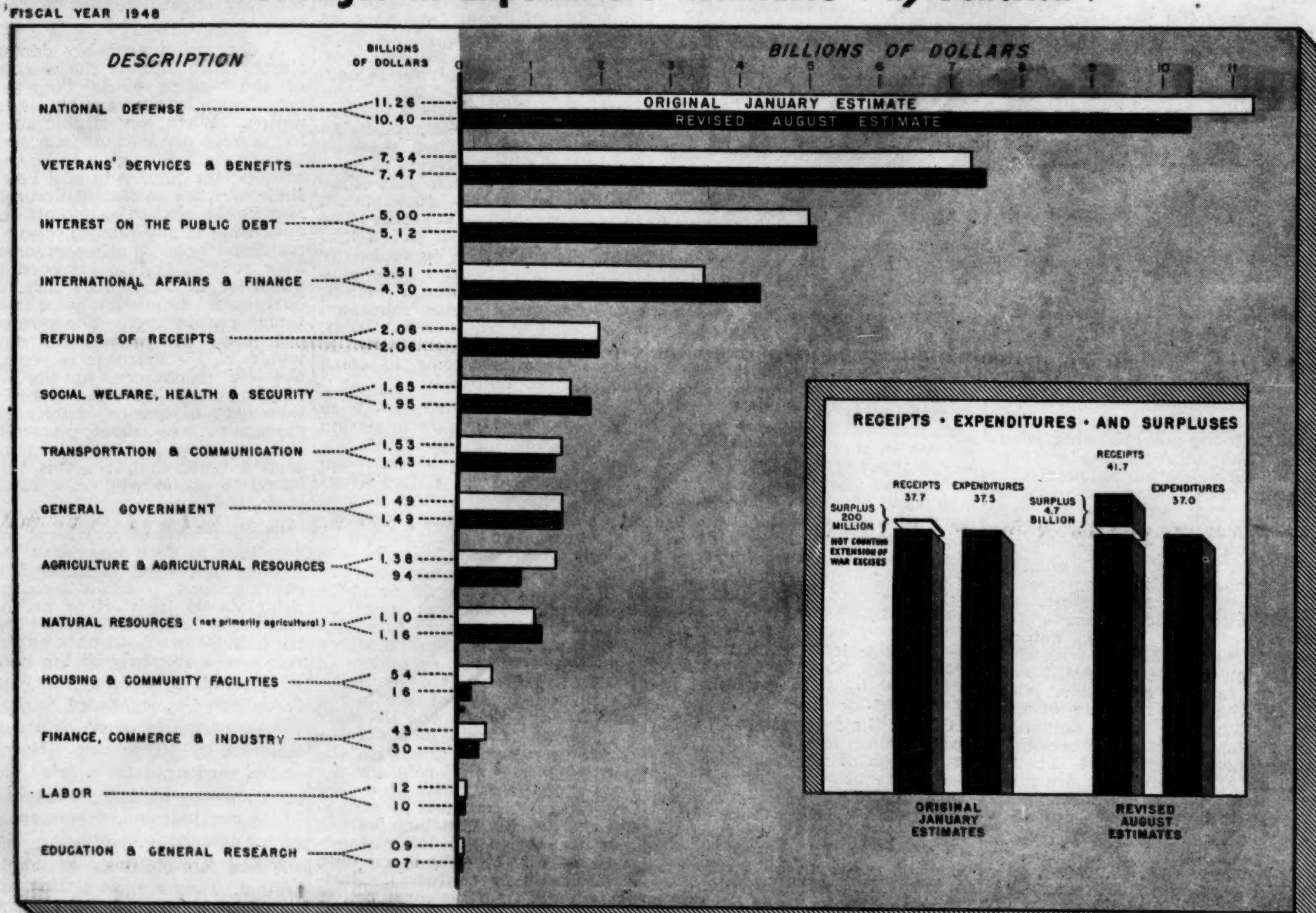
Table I
CHANGES IN THE 1948 BUDGET
January-August, 1947 (Millions)

Type of Change—	——Authorizations—— *Appropriations	New Contract Authorizations	Estimated Expenditures
January Budget	$31,292	$1,542	$37,528
A. Revisions due to changes in recommendations—			
1. Amendments to the Budget through July (net)	645	101	300
2. Anticipated supplemental recommendations to be considered at next session of Congress	403	317	338
Subtotal	1,048	418	638
B. Revisions due to changes between fiscal years and in program outlook—			
1. 1947 appropriations delayed to 1948	362	----	48
2. Transfers of expenditures between fiscal years	----	----	293
3. Changes in estimates of outlook for Government programs and revisions of related permanent appropriations	—15	----	13
Subtotal	347	----	354
C. Revisions due to Congressional action—			
1. Reductions in authorizations which may be regarded as final	—1,843	—3	—1,275
2. (a) Reductions in authorization which will require offsets by deficiency appropriations	—929	----	—888
(b) Estimated offsets by deficiency appropriations	848	----	832
3. Reductions in Government corporation expenditures	----	----	—345
4. Rescissions in authorizations of earlier years	----	----	—153
5. Substitution of contract authorizations for appropriations	----	181	----
6. Increases initiated by Congress	346	149	309
Subtotal	—1,578	327	—1,520
Total, August Review	31,109	2,287	37,000

*Includes appropriations to liquidate contract authorizations and reappropriations.

SUMMARY • Changes in Expenditure Estimates (by Function)

FISCAL YEAR 1948



BUREAU OF THE BUDGET

Martin & Jobe Now With Hopkins, Harbach & Co.

Special to THE FINANCIAL CHRONICLE

LOS ANGELES, CAL.—Theron A. Martin and Edward W. Jobe have become associated with Hopkins, Harbach & Co., 609 South Grand Avenue, members of the Los Angeles Stock Exchange. Mr. Martin was formerly with Fewel & Co. and R. D. Bayly & Co. In the past Mr. Martin was an officer of C. H. Hatch & Co. and R. C. Wade & Co. Mr. Jobe was with Lester & Co.

With Fairman & Co.

Special to THE FINANCIAL CHRONICLE

LOS ANGELES, CALIF.—Y. Clifford Tanaka has joined the staff of Fairman & Co., 210 West Seventh Street, members of the Los Angeles Stock Exchange. He was previously with Edgerton Wykoff & Co.

With E. F. Hutton & Co.

Special to THE FINANCIAL CHRONICLE

FRESNO, CALIF.—Kenneth G. Inman is now connected with E. F. Hutton & Co., 2044 Tulare Street. He was formerly with Merrill Lynch, Pierce, Fenner & Beane in San Francisco.

Joins Staff of Hope Co.

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, CAL.—William J. Smith has joined the staff of Hope & Co., San Diego Trust & Savings Building.

The Securities Business and Securities Acts

(Continued from page 3)

private capital—will be subjected to demands equal to those imposed on the function of raising capital. The two functions walk hand in hand. If industry is to receive the capital it needs, one part of our industry must seek it and another part provide it. The underwriters and sellers of securities will be successful in their work only if brokers and financial advisers to those with capital to invest can advise purchase. Willingness to invest depends on investor confidence — confidence in their advisers—confidence in the intelligence and good faith of our industry in selecting the securities to be offered — and, of course, confidence in the multitude of factors which we catch up in the phrase "general conditions."

I think that industry will during the next five years place heavy demands on our function of raising new capital and consequently on our function of investing, and advising on the investment of, capital. I hope that we will be selective in the purposes for which we sell our assistance in raising capital and that we will provide within our own ranks a healthy restraint on our own industry by being equally selective in our direction of capital investment. With so much capital needed, and with our own welfare and the welfare of the world dependent upon whether or not it is raised, it would be an economic crime to waste capital and confidence on irresponsible ventures.

The third function—providing markets for the owners of capital which has been invested—is in a sense the thermostat which controls the operation of the other two functions of our industry. This thermostat is itself operated by forces beyond the reach of our industry—far beyond our control—and, I am inclined to believe, beyond our ability to predict or understand. The overwhelming majority of orders to purchase and sell securities on our exchanges are issued by persons outside our business. Those orders determine the size of our markets and the direction of prices. In our nation of stockholders—where stockholders often outnumber employees even in the largest companies—the opinions of stockholders and those who are seeking to become stockholders control the market—not the opinions of the securities industry.

If—to press the analogy—this thermostat records public willingness to buy securities, it automatically signals to the rest of our industry that the capital needs of business will be given favorable consideration and that there exists an inclination to invest.

I believe that the factors which support the view that the capital needs of American business will be great during the next five years, will also influence the thousands who are the investors and owners of capital in this country to activate the thermostat. The demand for things destroyed or deferred by war and for things to replace those which have worn out or become obsolete during the years of war is both a reason for needing more capital and an influence which will bring owners of capital into the search for investment. Whether the recognition that there is work for capital to do, and gather profit in the execution, will outweigh the fear of atomic doom, vetoes and the boasts and falsehoods of the vetoers, I do not know. The market will record which weighs the heavier.

Assuming only the now hidden element of confidence, a peek into the future indicates to me that our industry will be called upon during the next few years to perform all three of its functions upon a greater scale than ever before. Only time can tell whether or not world affairs will permit that confidence to appear from behind the uranium curtain.

But assuming that unprecedented demands are placed on our business to raise capital, to invest and aid others to invest funds and to provide securities markets, will we be prevented from accomplishing our job by the Securities Acts? In my opinion and from my experience, the answer is unqualifiedly "No!"

The Effect of the Securities Acts

All three functions of our business are to some extent conditioned and limited by the provisions of the Securities Act and the Securities Exchange Act, and I would like to explain why my answer is nevertheless "No!"

There are three reasons:

First: There is no provision of either Act which in practice today prohibits or prevents an honest and informed man in our business from negotiating out, offering and selling a new issue of securities whatever others may think of its merits, or from investing his own capital or advising his clients how to invest theirs, and there is no provision of the Exchange Act as now administered (with the possible exception of the margin regulations and the statutory provisions relating to what securities may be dealt in on exchanges) which prohibits or prevents the existence of a free market on exchanges.

Second: Our industry has become familiar with the provisions of the Acts and has raised and dealt in billions of dollars worth of securities in the 13 years since their adoption.

Third: The present attitude of the Securities and Exchange Commission, which administers these Acts, reflects the knowledge and understanding which it has acquired in 13 years of practice and is constructive and helpful in carrying out the duties entrusted to it by law.

I do not wish you to believe that there are not provisions of these Securities Acts and the regulations issued under them which do not require revision. There are. But the total effect of any practical and desirable revisions on the ability of our business to discharge its functions would in my opinion be slight. It seems to me of the utmost importance that you new bankers and brokers realize that, despite what may be said in partial and sometimes personal dispute, the Securities Acts are not an impossible barrier to the conduct of your business. In my opinion, our business cannot with sound reason use the Securities Acts as an excuse for not being able to do the job that may be before us. Nor should we, in my opinion, blame the present stagnation in our business on these statutes. Our attention is better directed to the need for tax revision, to the need for better public understanding of our business, to the need for study of business situations which will require capital, and to the need for creating the widest possible circle of customers who have confidence in us.

Acts Created Some Unsolved Problems

While I do not think that the Securities Acts will prevent our doing the work which I believe we will be called upon to do, those Acts have created some as yet unsolved problems which it might be appropriate to consider.

Under the Securities Act the primary objective is to insure that customers have reliable information upon which to base their decisions whether or not to buy securities which are being publicly offered. However, the Act tends in two ways to insulate customers from information prior to making a purchase. The volume of information supplied by the registration process (as insurance against liability) is often beyond the interest or capacity of a customer. Also the time table of registration and public offering which results from the statute, in the case of an eagerly awaited offering, forces firms to choose between giving no information to their customers, or running the risk of having the information they give construed to be an illegal offering. In such cases, the customer must often choose between buying blind or not having a chance to buy at all.

Both of these situations also tend to surround the act of selling new securities with an atmosphere of doubt and uncertainty. It is unrealistic to expect that information about a new security, which everyone knows is about to be offered, will not be made available to customers even though the registration process has not reached its "effective date." It is also unrealistic to assume that prospective customers invariably act, or want to act, only after studying the prospectus and registration data.

I believe that the first of these problems is being, and will continue to be, gradually corrected in practice. The S-1 and other forms, allowing the Prospectus to be Part I of the registration statement, help to make a better prospectus. Development in practice of what is and what is not "material" in corporate information, and how and where such data should be stated in the prospectus, is already well advanced. Original, wholly logical and legal, but nevertheless exaggerated, fears concerning liability for "omissions" are being modified in practice. It may be some time before the attitude of "when in doubt put it in" alters to the more reasonable one of "if it is not important don't clutter up the prospectus"; but I feel sure that time will make the alteration. It is my guess that practice and not further legislation will cure this problem.

The second problem of reconciling the objective that customers have the prospectus information before they buy, with the statutory obstacles to their receiving it before registration is "effective" and the issue is sold, is somewhat more formidable. Suggestions now being discussed for statutory revision would seek to cure it by giving customers a time period after receipt of the prospectus within which to withdraw from a purchase. The complexity of these proposals creates considerable doubt as to whether in practice the cure would be of any substantial advantage.

Some further difficulties are created by the Securities Act requirement that prospectuses be delivered by all dealers on sales of a "registered" security for a full year after the public offering. This requirement is subject to an extremely limited exemption making it unnecessary to deliver prospectuses in some cases where the sale occurs as the result of a customer's unsolicited order. This requirement imposes a heavy and quite unnecessary burden and the exception is both ambiguous and impossible to observe fully in transactions which take place on the floors of exchanges.

Revisions of the Securities Act to reduce the period during which prospectuses must be delivered by dealers from one year to a few months, and to correct the present uncertainties with regard to delivery of prospectuses in connection with transactions made on brokerage orders, are clearly desirable and are now under discussion.

The Margin Trading Restrictions

The Securities Exchange Act has created a few substantial problems requiring solution which should be mentioned.

That Act grants to the Federal Reserve Board authority to restrict the amount of credit which may be extended on securities dealt in on exchanges. It does not grant this authority over other securities. Some question exists as to the purposes for which this power may be exercised. Also, there is considerable doubt as to the soundness of limiting the collateral value of exchange securities without corresponding limitations on non-exchange securities. It might well be that both problems could be solved in a statutory revision establishing a uniform and fixed limitation on the collateral value of any security where the loan is to be made for the purpose of purchasing or carrying securities by a bank, exchange member or registered dealer.

A more important problem under the Exchange Act relates to another distinction which is made between securities listed on an exchange and those which are not. Under that Act the privilege of having an issue of securities listed on an exchange is employed as a means of obtaining corporate information and the conformity of officers, directors and substantial stockholders to the standards of Section 16. These quite logical provisions have created some illogical results.

The logic of the Act rests on the sound base that corporations have over the years acquired their capital from ever more widespread individual sources and today are owned by literally millions of owners, who are far removed from the operations of their companies and should be given the right to some minimum standard of information. A parallel consideration is that due to the wide distribution of corporate securities, persons buy such securities from private owners in transactions in which the corporation has no part and such buyers should have some minimum information which only the corporation can supply.

The Information Requirements

The illogical results spring from the equally obvious fact that the conditions justifying the establishment of minimum standards of information and responsibility exist, whether or not an issue of securities is bought and sold through the mechanics of an exchange, or through the mechanics of a member or non-member office. Since registration information must be supplied by a corporation and responsibilities assumed by its officers, directors and principal stockholders, before an issue of its securities may be listed on an exchange, the corporate issuer is placed in the decisive position. As the Act stands today, it is the corporation which must decide whether or not it will submit to the standards of information and responsibility required by the Act, and thus whether or not its security holders will have an exchange market. This is true, although the same reasons for establishing those standards exist, regardless of whether the corporation decides to become subject to the Act and give its stockholders an exchange market or to stand clear of the Act, even though that will prevent its stockholders from having a public as well as a private market.

The peculiar and illogical result is that, although a large part of the Exchange Act and its regulations are devoted to the objective of making the public market on exchanges the best possible place to buy and sell securities, the other provisions with respect to what securities may be bought and sold on exchanges tend to reduce severely the availability of such markets to buyers and sellers. Under the present situation, any registered dealer may set himself up as the market place in any security; but an exchange, which is the most easily and therefore the most heavily regulated market in the world, must tell buyers and sellers of a security to buy and sell elsewhere, unless the corporation which no longer owns those securities decides to register.

This is a most difficult problem and I am quite ready to admit that so far a solution has not been found and that any solution may be hard to find. One solution which has been under discussion for many years is the so-called "General Registration" solution. In its essence General Registration would liquidate the problem by making the "public" character of a corporation (i.e. its size and the number of its owners) the condition which would make it subject to the filing of corporate information and compliance with proxy rules and officer, director and stockholder responsibility under Section 16. Under this solution the disclosure requirements would rest on a condition which is unavoidable, rather than on listing which can be avoided.

However, there is another solution which would not place a sudden new "registration" burden on many hundreds or possibly thousands of companies not now subject to "registration" in any form. This alternative would be to adopt a plan which would come into effect in a more gradual manner than General Registration and which would not be burdensome or disruptive of business affairs.

A Proposed Solution

Today, under the Securities Act a company which seeks capital publicly must file with the SEC basic information about its affairs and must agree to furnish thereafter the same annual and periodic information which is required under the Exchange Act of companies listed on an exchange. If the Securities Act were amended so that all companies which go to the public for money in the future would be subject to the proxy provisions and officer, director and stockholder requirements of the Exchange Act, most companies would ultimately become "registered" under the Securities Act to the same extent as companies now listed on exchanges are "registered" under the Exchange Act or as companies which would be "registered" under the proposed "General Registration" statute. If the securities of all companies, "registered" under such an amended Securities Act, were eligible for admission to exchanges without further SEC requirements, a considerable part of the problem would ultimately be solved. Such a solution has several merits. It would not be sudden and widespread in its application and it would not introduce any new factors or requirements not now thoroughly understood by industry and the financial community. Also it seems eminently fair to require that if a company seeks permanent capital publicly, it should submit permanently to those minimum standards of disclosure and practice now applicable to a large percentage of American business. It would also eliminate all duplication of "registration" between the two Acts.

These are a few of the problems and some guesses at some of the solutions. These problems are yours and the final solutions can reflect your thoughts and suggestions. Don't fear to tread where others have rushed in.

I have the greatest confidence that all branches of our business face an enormous demand for their services. I am equally confident that the Securities Acts furnish no excuse for non-performance of those services. Finally, it is reassuring to know that there is at least a large roomful of young, energetic and open-minded men, hard at work in our business, who will be ready to take over when those now in charge run out of energy or cease to be adaptable.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

A. B. C. Vending Corp., New York (9/11-15)
June 30 filed 145,000 shares ($1 par) common. **Underwriter**—Reynolds & Co., New York. Price by amendment. **Proceeds**—Of the total, 120,000 shares are being sold by stockholders and the balance by the company. The company will use proceeds for organizational purposes, which includes the merger of Berlo Vending Co., Philadelphia, and Sanitary Automatic Candy Corp., New York. Name formerly American Vending Machine Corp.

Acme Electric Corp., Cuba, N. Y. (9/10)
June 26 filed 123,246 shares ($1 par) common stock. **Underwriters**—Herrick, Waddell & Co., Inc., and First Colony Corp. **Offering**—To be offered publicly at $5 a share. **Proceeds**—Company will receive proceeds from the sale of 58,880 shares and four selling stockholders the proceeds from the sale of 64,366 shares. Company also will receive proceeds from the sale of 20,000 warrants for common stock to underwriters at an aggregate price of $2,000. Net proceeds will be used to pay current bank loans and for working capital.

● **Alaska Gold & Metals Co., Ketchikan, Alaska**
Aug. 20 (letter of notification) 150,000 shares of $1 par common. To be sold to a group of individuals to whom the company has leased its mining property. The shares will be issued in consideration for the expenditure by the group of $100,000 in exploration and development of the company's property. No underwriting. For exploration and development of mining property.

American Telephone & Telegraph Co., New York
Aug. 15 filed 2,800,000 shares ($100 par) capital stock. **Underwriting**—No underwriting. **Offering**—Shares will be offered to employees of A. T. & T. and those of 38 subsidiaries, with the exception of officers, at approximately $20 below the market price. Payments are to be made in instalments at rate of $5 per share per month, beginning December, 1947. **Proceeds**—To finance construction programs.

American Water Works Co., Inc., N. Y.
March 30, 1946 filed 2,343,105 shs. of common (par $5) plus an additional number determinable only after the results of competitive bidding are known. **Underwriters**—To be filed by amendment. Probable bidders include Dillon, Read & Co. Inc., White, Weld & Co., and Shields & Co. (jointly), and W. C. Langley & Co. and The First Boston Corp. (jointly). **Offering**—Price to public by amendment. Bids are expected to be advertised some time in September.

Atlantic City (N. J.) Electric Co.
March 19 filed 522,416 shares ($10 par) common, being offered by American Gas & Electric Co. **Underwriters**—To be determined by competitive bidding. **Proceeds**—Offering is part of American's plan to dispose of its holdings of 1,150,000 outstanding shares of Atlantic City. The shares remaining after the public offering will be distributed as dividends on American's common stock. **Bids**—Bids for the purchase of the stock submitted July 22 were rejected. A joint bid by The First Boston Corp.; Shields & Co.; Drexel & Co., and White, Weld & Co. of $17.68 per share and a joint bid by Dillon, Read & Co. Inc., and Smith, Barney & Co. of $16.30 per share were submitted.

● **Atlantic Gas Co., Savannah, Ga.**
Aug. 22 (letter of notification) 22,400 shares ($5 par) common. To be offered to common stockholders at $8.50 per unit on the basis of one share for each five shares held. **Underwriters**—Clement A. Evans & Co., Inc.; Courts & Co.; The Robinson-Humphrey Co.; Milhous, Martin & Co., and J. H. Hilsman & Co., all of Atlanta, Ga.; Johnson, Lane, Space & Co. and Varnadoe-Chisholm & Co., both of Savannah, and Putnam & Co., of Hartford, Conn. **Underwriting Discount**—50 cents per share. For payment of indebtedness and to defray part of the cost of its expansion and improvement program.

● **Atlas Educational Film Co., Oak Park, Ill.**
Aug. 18 (letter of notification) 50,000 shares ($1 par) common. Price, $1 a share. No underwriting. To be offered to stockholders of the company. For working capital.

Barium Steel Corp., New York
June 17 filed $3,000,000 15-year sinking fund debentures, due 1962, with non-detachable subscription warrants for purchase of common stock. **Underwriter**—Name by amendment. Price by amendment. **Proceeds**—For payment of loans and for other corporate purposes.

● **Barrett Machine Tool Co., Meadville, Pa.**
Aug. 19 (letter of notification) 6,000 shares of 6% cumulative preferred stock (par $25). **Price**—$25 per share and div. **Underwriter**—Grubbs, Scott & Co., Pittsburgh. Working capital, expansion and rehabilitation of facilities.

Brayton Flying Service, Inc., Robertson, Mo.
March 24 (letter of notification) 50,000 shares ($1 par) 27½ cent cumulative, convertible preferred and 50,000 shares (10c par) common. **Price**—$5 per unit, consisting of one share of each. **Underwriter**—White and Co., St. Louis, Mo. For expansion of operating facilities and for working capital.

Brockway (Pa.) Glass Co., Inc.
Aug. 11 (letter of notification) 5,000 shares of 5% cumulative preferred (par $50). **Price**—$50. **Underwriters**—None. **Proceeds**—For additional working capital.

Brooklyn (N. Y.) Union Gas Co.
May 3, 1946 filed 70,000 shares of cumu. preferred stock ($100 par). **Underwriters**—To be filed by amendment. **Bids Rejected**—Company July 23, 1946, rejected two bids received for the stock. Blyth & Co., Inc., and F. S. Moseley & Co. and associates submitted a bid of 100.06 for a 4.30% dividend. Harriman Ripley & Co. bid 100.779 for a 4.40% dividend. Indefinitely postponed.

Capital Transit Co., Washington
Aug. 11 filed 120,000 shares ($100 par) common. **Underwriting**—No underwriting. **Offering**—The shares are being offered by Washington Railway & Electric Co. to its common stockholders at $20 a share in the ratio of two shares for each share held. The North American Co., holder of 50,197 of Washington Railway's outstanding 65,000 shares of common, will receive warrants to purchase 90,394 shares of the offering. It also will purchase any shares not acquired by other stockholders. **Proceeds**—Washington Railway will use proceeds to redeem $2,800,000 of bank loan notes.

Carscor Porcupine Gold Mines, Ltd., of Toronto, Ontario
June 24, 1946, filed 400,000 shares of common. **Underwriter**—No underwriters. **Offering**—To the public at $1 a share in Canadian funds. **Proceeds**—For a variety of purposes in connection with exploration, sinking of shafts, diamond drilling and working capital.

Carshaw Porcupine Gold Mines, Ltd., Windsor, Ont.
Aug. 18 filed 700,000 shares ($1 par) common. **Underwriter**—Davis, Hunter, Scott & Co., Detroit. **Price**—$1 a share. **Proceeds**—To purchase mining equipment and for working capital. **Business**—Mining.

Central Soya Co., Inc., Fort Wayne, Ind.
Aug. 21, 1946, filed 90,000 shares (no par) common. **Underwriter**—None. **Offering**—Shares initially will be offered for subscription to common stockholders at rate of one share for each 7½ shares held. Unsubscribed shares will be sold to underwriters. **Price by amendment. Proceeds**—Working capital, etc. **Offering indefinitely postponed.**

● **Century Food Markets Co., Youngstown, O.**
Aug. 20 (letter of notification) 26,800 shares ($2.50 par) common and 8,400 shares ($20 par) 5% cumulative sinking fund preferred stock. Price, $25 per unit consisting of one share of preferred and two shares of common. Of the total common to be offered, $25,000 are to be offered to key employees at par. To be sold through officers and licensed dealers. To establish additional retail outlets, to purchase equipment and for working capital.

Claude Neon, Inc., New York
March 28 filed 226,454 shares ($1 par) common. **Underwriting**—None. **Offering**—Shares will be offered for subscription to common stockholders on basis of one share for each 10 shares held. Price by amendment. **Proceeds**—Towards cost of additional interests in oil leases.

Cohart Refractories Co., Louisville, Ky.
Mar. 28 filed 182,520 shares ($5 par) common. **Underwriters**—Harriman Ripley & Co., and Lazard Freres & Co., both of New York. Price by amendment. **Proceeds**—The shares are being sold by Corning Glass Works, New York, and represent 88.8% of the total outstanding common of the company. Offering indefinitely postponed.

Commonwealth Investment Co., San Francisco
Aug. 11 filed an unspecified amount of common capital stock. Underwriter—North American Securities Co., San Francisco, is the general distributor. **Price**—Based on market price. **Proceeds**—For investment.

Conlon-Moore Corp., Chicago (10/1)
July 25 filed $800,000 10-year first mortgage 4¾% sinking fund bonds. **Underwriters**—Illinois Securities Co., Joliet, Ill., and Mullaney, Ross & Co., Chicago. **Price**—Par. **Proceeds**—To pay off indebtedness and to finance expansion of business.

● **Consumers Power Co., Jackson, Mich. (9/22)**
Aug. 22 filed $25,000,000 30-year first mortgage bonds. **Underwriting**—To be determined by competitive bidding. Probable bidders include: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; Lehman Brothers; White, Weld & Co.; W. C. Langley & Co. **Proceeds**—To finance expansion program. **Business**—Public utility. **Bids**—Company expects to advertise for bids to be opened Sept. 22.

Continental Casualty Co., Chicago (9/18)
Aug. 15 filed 100,000 shares ($10 par) capital stock. **Underwriters**—Glore, Forgan & Co., and William Blair & Co., both of Chicago. **Offering**—Shares initially will be offered for subscription to stockholders of record Sept. 3 on basis of one new share for each five shares held. Unsubscribed shares will be offered to the public. Rights expire Sept. 17. Price by amendment. **Proceeds**—For its capital stock and surplus accounts.

● **Corson (H. J.) & Associates, Inc., Wash., D. C.**
Aug. 19 (letter of notification) 250 shares ($100 par) preferred. Price, $100 a share. No underwriting. For operating expenses.

Crawford Clothes, Inc., L. I. City, N. Y.
Aug. 9, 1946, filed 300,000 shares ($5 par) common. **Underwriters**—First Boston Corp., New York. **Price by amendment. Proceeds**—Go to Joseph Levy, President, selling stockholders. Offering date indefinite.

Detroit Edison Co., Detroit (9/9)
June 27 filed $60,000,000 of general refunding mortgage bonds, series "I," due 1982. **Underwriting**—To be determined by competitive bidding. Probable bidders: The First Boston Corp.; Halsey, Stuart & Co. Inc.; Coffin & Burr; Spencer Trask & Co.; Dillon, Read & Co. Inc. **Proceeds**—To redeem outstanding mortgage bonds, series "F," due 1965, to repay bank loans, and for property additions. **Bids**—Bids for purchase of bonds will be received up to noon Sept. 9 at company's office, Room 1702, 60 Broadway, New York.

Divco Corp., Detroit
April 30 filed 34,963 shares ($1 par) common. **Underwriters**—Reynolds & Co. and Laurence M. Marks & Co., both of New York. **Price**—By amendment. **Proceeds**—Shares are being sold by a stockholder. Twin Coach Co., Kent, O., which will receive all proceeds.

Drackett Co., Cincinnati
April 28 filed 14,300 ($1 par) common shares. **Underwriter**—Van Alstyne, Noel & Co. **Proceeds**—Stock is being sold by Harry R. Drackett, President (6,929 shares) and Charles M. Drackett, 7,371 shares). **Price**—By amendment.

Duquesne Light Co., Pittsburgh, Pa. (9/9)
Aug. 1 filed $75,000,000 30-year first mortgage bonds. **Underwriting**—To be determined by competitive bidding. Probable bidders include: Kuhn, Loeb & Co. and Smith, Barney & Co. (jointly); Halsey, Stuart & Co. Inc.; The First Boston Corp. **Proceeds**—To redeem $70,000,000 of first mortgage 3½% bonds at 103¼. The balance will be added to general funds to pay part of the cost of new construction. **Bids**—It is expected that bids will be opened Sept. 9.

Duraloy Co., Scottdale, Pa.
March 12 (letter of notification) 25,000 shares ($1 par) common on behalf of the issuer, 12,500 shares ($1 par) common for the account of Thomas R. Heyward, Jr., and 12,500 shares ($1 par) common for the account of Mrs. Thomas R. Hayward, Jr. **Price**—At market (approximately $3.25 per share). **Underwriter**—Johnson & Johnson, Pittsburgh, Pa., and The First Cleveland Corp., Cleveland. The company will use its proceeds for working capital.

Edelbrew Brewery, Inc., Brooklyn, N. Y.
Dec. 31, 1946, filed 5,000 shares ($100 par) 5% non-cumul. preferred. **Underwriters**—None. **Offering**—To be offered at par to customers, officers and employees of the company. **Proceeds**—For corporated purposes including modernization and improvement of the manufacturing plant and machinery and equipment.

● **Empire Projector Corp., New York (9/2-5)**
Aug. 21 (letter of notification) 80,000 shares ($1 par) common on behalf of the company, and 15,000 shares ($1 par) common on behalf of officers and stockholders. The 80,000 shares will be sold at $3 a share. The 15,000 shares will be sold to L. D. Sherman & Co., New York, the principal underwriter, at 60 cents a share. The underwriting discount for 80,000 shares will be 50 cents a share. The company will use its proceeds to increase working capital.

Federal Electric Products Co., Newark, N. J.
Feb. 26, filed 150,000 shares ($1 par) common class A. **Underwriter**—E. F. Gillespie & Co., Inc., New York. **Price**—$7.25 a share. The registration states principal stockholder has granted the underwriters an option to purchase 45,000 shares of class B ($1 par) common at $7.25 a share, exercisable for a period of three years. **Proceeds**—Proceeds of approximately $870,000, together with $755,000 of other bonds, will be used to repay the

NEW ISSUE CALENDAR

August 29, 1947	
Hajoca Corp.	Common
September 2, 1947	
Empire Projector Corp.	Common
Woodmore-Drake Oil Corp.	Income Notes
September 3, 1947	
Chicago St. Paul Minneapolis & Omaha Noon (CDT)	Equip. Trust Ctfs.
Westvaco Chlorine Products Corp.	Preferred
September 4, 1947	
Liberty Loan Co. Inc., Buffalo	Debentures
Pacific Finance Corp.	Common
September 8, 1947	
Illinois-Rockford Corp.	Common
McPhail Candy Corp.	Pref. and Common
September 9, 1947	
Detroit Edison Co. (noon)	Bonds
Duquesne Light Co.	Bonds
General Telephone Corp.	Preferred
September 10, 1947	
Acme Electric Corp.	Common
Tennessee Gas Transmission Co.	Bonds and Pref.
September 11, 1947	
A. B. C. Vending Corp.	Common
September 15, 1947	
Monongahela Power Co.	Bonds and Preferred
Revere Racing Association Inc.	Common
September 16, 1947	
Iowa Public Service Co.	Bonds and Common
San Diego Gas & Electric Co.	Common
September 18, 1947	
Continental Casualty Co.	Capital Stock
Hooker Electrochemical Co.	Common
September 22, 1947	
Consumers Power Co.	Bonds
September 30, 1947	
New England Telephone & Telegraph Co.	Debs.
October 1, 1947	
Coulon-Moore Corp.	Bonds
October 21, 1947	
Pacific Telegraph & Telephone Co.	Debentures

balance of $34,000 of a property mortgage, to pay off loans in the amount of $1,295,000 to Bankers Commercial Corp., New York, and for additional working capital.

Florida Power & Light Co., Miami, Fla.
June 24 filed 150,000 shares of $100 par cumulative preferred. **Underwriters**—Names to be filed by amendment. **Bids**—No bids submitted for purchase of stock which was advertised for sale on July 29. Company is negotiating with underwriters for sale of the stock.

Florida Rami Products, Inc., N. Y.
Aug. 1 (letter of notification) 100,000 shares ($1 par) class A common. **Price**—$3 a share. **Underwriter**—Batkin, Jacobs & Co., New York. To purchase new machines and equipment, to pay off some current liabilities and to add to working capital.

General Telephone Corp., New York (9/9)
Aug. 19 filed 200,000 shares ($50 par) cumulative preferred. An unspecified amount of common also was registered for conversion privilege of preferred. **Underwriters**—Paine, Webber, Jackson & Curtis, and Stone & Webster Securities Corp., both of New York, and Mitchum, Tully & Co., San Francisco. Price by amendment. **Proceeds**—To finance construction programs of its 30-subsidiary telephone companies operating in 17 states.

Glensder Textile Corp., New York
Aug. 28, 1946, filed 355,000 shs. ($1 par) common, of which 55,000 shs. are reserved for issuance upon the exercise of stock purchase warrants. **Underwriter**—Van Alstyne, Noel & Co. **Offering**—**The 300.000 shares are issued and outstanding and being sold for the account of certain stockholders. Company has also issued 55,000 stock purchase warrants to the selling stockholders at 10 cents a share entitling them to purchase up to Aug. 1, 1949, common stock of the company at $11 a share. Price by amendment. Offering temporarily postponed.**

Great Western Biscuit Co., Los Angeles
Aug. 11 filed 249,972 shares ($1 par) capital stock. Underwriter — Fewel & Co., Los Angeles. **Offering** — Shares will be offered to stockholders at $2 a share in the ratio of one new share for each two now held. Unsubscribed shares will be offered publicly at $2 a share. The underwriters will receive a commission of 25 cents a share. **Proceeds**—For business expansion and to reduce short term indebtedness.

• **Griffith-Consumers Co., Washington, D. C.**
Aug. 25 (letter of notification) 5,000 shares ($50 par) series A 5% cumulative preferred. **Price**—$50 a share. To be offered to stockholders. No underwriting. For expansion.

Grolier Society, Inc., New York
April 2, 1947 (by amendment) 170,000 shares of $1 par common stock. **Underwriters**—Riter & Co. and Hemphill, Noyes & Co. **Offering**—Underwriters will purchase from the company 70,000 shares and from Fred P. Murphy and J. C. Graham, Jr., 100,000 shares of issued and outstanding common. **Proceeds**—For reduction of bank loans.

Hajoca Corp., Philadelphia (8/29)
Aug. 4 (letter of notification) 6,987 shares of common stock (par $1). **Price**—$35 per share. **Underwriting**—None. Holders of common stock of record Aug. 29 will be given the right to subscribe for the stock in the ratio of one new for each 10 shares held. Rights expire Oct. 1, 1947. Proceeds for construction program.

• **Hall Lithographing Co., Topeka, Kansas**
Aug. 22 (letter of notification) 2,000 shares of 5% cumulative preferred ($100 par). **Price** — $102 per unit. **Underwriters**—Beecroft-Cole & Co. and The Columbian Securities Corp., both of Topeka; and Prescott, Wright, Snider Co., Kansas City, Mo. The underwriting discount will amount to $4 per share. For working capital and to acquire lithographing and printing plant.

Helicopter Air Transport, Inc., Camden, N. J.
March 14 filed 270,000 shares of capital stock. Underwriter—Strauss Bros., Inc., New York. Underwriters may withdraw as such. **Price**—$3.50 a share. **Proceeds**—Net proceeds will be used to pay obligations, purchase helicopters and equipment and for working capital.

• **Hooker Electrochemical Co. (9/18)**
Aug. 20 (by amendment) filed 134,034 shares ($5 par) common replacing original program (filed June 26) to sell 110,000 shares of cumulative, Series A (no par) preferred stock. **Underwriter** — Smith, Barney & Co. will be principal underwriter for purchase of common not subscribed for by the company's common stockholders. **Offering** — The shares will be offered to common stockholders of record Sept. 2 on the basis of one share for each five shares held. Rights expire Sept. 17. **Price** —By amendment. **Proceeds**—For general corporate purposes including the financing of a portion of the company's plant expansion program. **Business**—Manufacture of chemical products.

• **Hoppi-Copters, Inc., Seattle, Wash.**
Aug. 22 (Letter of notification) 16,800 shares ($1 par) common. **Price** — $5 per share. **Underwriters** — The Crawford Goodwin Co., Seattle, Wash. For working capital and general corporation expenses.

Illinois Power Co., Decatur, Ill.
June 17, 1946 filed 200,000 shares ($50 par) cumu. preferred stock and **966,870 shares (no par) common stock. Underwriters—By competitive bidding. Probable bidders include Blyth & Co., Inc.; The First Boston Corp.; W. E. Hutton & Co. Proceeds—Net proceeds from the sale of preferred will be used to reimburse the company's treasury for construction expenditures. Net proceeds from the sale of common will be applied for redemption of 5% cumulative convertible preferred stock not converted into common prior to the redemption date. The balance will be added to treasury funds. Company has asked the SEC to defer action on its financing program because of present market conditions.**

Illinois-Rockford Corp., Chicago (9/8-12)
July 24 filed 120,000 shares ($1 par) common. **Underwriters**—Brailsford & Co., and Straus & Blosser, Chicago. **Price**—$9.25 a share. **Proceeds**—The shares are being sold by four stockholders and represent part of the stock the sellers will receive in exchange for their holdings of four furniture companies to be merged with the registrant. The merging companies are Toccoa Manufacturing Co. and Stickley Brothers, Inc., both Illinois corporations, and the Luce Corp. and Stickley Bros. Institutional Furniture Co., both Michigan corporations.

Inglewood Gasoline Co., Beverly Hills
July 7 (letter of notification) 100,414.8 shares ($1 par) capital stock. **Price**—$1 a share. To be offered to stockholders. Unsubscribed shares to be offered publicly through Bennett & Co., Hollywood. To purchase equipment, liquidate indebtedness, and for working capital. An amended application may be filed in near future.

Interstate Power Co., Dubuque, Iowa
May 13 filed $19,400,000 of first mortgage bonds, due 1977, and 3,000,000 shares ($3.50 par) capital stock. Underwriters—To be determined by competitive bidding. **Probable bidders:** Lehman Brothers, Goldman, Sachs & Co. and The First Boston Corp. (jointly); Halsey, Stuart & Co. Inc. (bond only); Harriman Ripley & Co., and Dillon, Read & Co. Inc. (stock only). **Proceeds**—For debt retirement, finance new construction and for working capital.

Iowa Public Service Co. (9/16)
Aug. 6 filed $3,500,000 of 1st mtge. bonds, due 1977, and 109,866 shs. ($15 par) common. **Underwriters** — To be determined by competitive bidding for the sale of the bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly); The First Boston Corp.; A. C. Allyn & Co.; Harriman Ripley & Co., and Equitable Securities Corp. (jointly). The common will be offered to the company's stockholders at the rate of one new share for each five held. Unsubscribed to Sioux City Gas & Electric Co. **Proceeds**—For construction and expansion of system. **Bids**—Bids for purchase of securities expected about Sept. 16.

Jeannette (Pa.) Glass Co.
Aug. 4 (letter of notification) 420 shares of 7% cumulative preferred stock. **Price**—$105. **Underwriter**—McLaughlin, MacAfee & Co., Pittsburgh. Working capital.

Kentucky Utilities Co., Lexington, Ky.
May 9 filed 130,000 shares ($100 par) cumulative preferred. **Underwriters**—To be determined by competitive bidding. **It was announced July 25 that the company has** instituted conversations with The First Boston Corp., Lehman Brothers and Lazard Freres Co. (jointly) toward underwriting the stock. **Offering**—Preferred stock initially will be offered in exchange for outstanding ($100 par) 6% preferred and ($50 par) junior preferred. The basis of exchange will be one share of new preferred for each share of 6% preferred and one share of new preferred for each two shares of junior preferred. Shares of new preferred not issued in exchange will be sold at competitive bidding. **Proceeds**—Proceeds from the sale of new preferred will be used to redeem unexchanged shares of old preferred. **Bids**—Bids for purchase of stock advertised for July 14 postponed.

Koch Chemical Co., Winona, Minn.
July 22 (letter of notification) 60,000 shares ($1 par) common. **Price**—$5 a share. **Underwriter**—H. P. Carver Corp., Boston. To retire debt and for working capital.

• **Kropp Forge Co., Chicago**
Aug. 20 (letter of notification) 75,000 shares (33⅓¢ par) common, and warrants to purchase 75,000 shares of common. Price, $2.75 per common share. The warrants will be sold at 75 cents per warrant of which the underwriting discount will amount to 74 cents, netting the company one cent per warrant. There will be no underwriting for the sale of common. The warrants will be sold in private transaction. Proceeds for working capital.

La Plant-Choate Manufacturing Co., Inc., Cedar Rapids, Iowa
April 30 filed 60,000 shares ($25 par) 5% cumul. convertible preferred. **Underwriter**—Paul H. Davis & Co., Chicago. **Price**—$25 per share. **Proceeds**—To be added to working capital and will be used in part to reduce current bank loans.

Lay (H. W.) & Co., Inc., Atlanta
April 18 filed 16,000 shares ($50 par) 5% cumulative convertible preferred and 15,000 shares ($1 par) common. Underwriter—Clement A. Evans & Co., Inc., Atlanta. **Offering**—All but 3,000 shares of the common will be sold publicly at $6.50 a share. The preferred will be offered to the public at $50 a share. The 3,000 shares of common not sold publicly will be offered to company officers and employees at $5 each. **Proceeds**—For construction of new plants at Atlanta and Memphis, Tenn. **Offering indefinitely postponed.**

Legend Gold Mines, Ltd., Toronto, Canada
June 27 filed 300,000 shares ($1 par) common treasury stock. **Underwriting** — To be supplied by amendment. **Price**—50 cents a share. **Proceeds**—To develop mining properties. **Business**—Mining.

• **Liberty Loan Co., Inc., Buffalo (9/4)**
Aug. 26 (letter of notification) $250,000 debenture notes (inclusive of $63,700 notes issued without being registered and being reoffered). Operation and expansion of business. **Underwriting**—None.

Li Falco Manufacturing Co., Inc., Little Falls, N. Y.
July 31 (letter of notification) 5,000 shares ($2 par) common. To be sold at market. **Underwriter**—Birnbaum & Co., New York. Shares being sold on behalf of two stockholders.

Manhattan Coil Corp., Atlanta, Ga.
May 20 filed $500,000 5% serial debentures, due 1949-1957; 12,000 shares ($25 par) 5½% cumulative convertible preferred and 85,000 shares ($1 par) common. Underwriter—Kirchofer & Arnold, Inc., Raleigh, N. C. **Price** —The debentures at 102.507, while the preferred shares will be offered at par and the common shares at $4 each. **Proceeds**—To retire bank indebtedness and to finance purchase of machinery and other plant equipment.

Manontqueb Explorations, Ltd., Toronto, Can.
April 10 filed 300,000 shares ($1 par) common. Underwriter—F. H. Winter & Co. **Price**—40 cents a share. **Proceeds**—For exploration and development of mining claims. **Business**—Mining.

Mays (J. W.) Inc., Brooklyn, N. Y.
Feb. 28 filed 150,000 shares ($1 par) common. Underwriter—Burr & Co., Inc., New York. Price by amendment. **Proceeds**—Of the total, 100,000 shares are being sold by seven stockholders. The remaining 50,000 shares are being sold by the company, which will use its proceeds for general corporate purposes.

McCormick & Co., Inc., Baltimore, Md.
Aug. 13 (letter of notification) 1,400 shares ($100 par) 5% cumulative preferred. **Price**—$100 a share. No underwriting. For additional working capital.

McPhail Candy Corp., Chicago (9/8-12)
July 25 filed 100,000 shares ($10 par) 5½% cumulative convertible preferred and 200,000 shares ($1 par) common. **Underwriters**—Brailsford & Co., and Shillinglaw, Bolger & Co., Chicago. **Price** — $10 a preferred share and $6 a common share. **Proceeds** — Company will receive proceeds from the sale of preferred only and will use it to pay off bank loans, buy new equipment and for working capital. The common stock is being sold by Russell McPhail, President.

Messenger Corp., Auburn, Ind.
Aug. 12 (letter of notification) $200,000 3½% serial debentures, due 1948-1961. **Underwriters**—The First Trust Co., Lincoln, Neb.; Cruttenden & Co., Chicago. **Proceeds**—For additions and improvements, purchase of machinery and equipment.

Morris Plan Corp. of America, N. Y.
Mar. 31 filed $3,000,000 debentures. Underwriter—Eastman, Dillon & Co., New York. Price by amendment. **Proceeds**—To retire outstanding bank loans.

Musicraft Records, Inc., New York
Aug. 15 filed 317,259 shares ($1 par) capital stock. **Underwriter**—To be sold through brokers and other agents. **Offering**—100,000 of the total will be offered publicly at $2.50 per share; 165,259 shares are reserved for issuance when, as and if stock purchase warrants issued and to be issued are exercised, and 52,000 shares are reserved for issuance if certain loans having conversion features shall be converted into shares of capital stock. The reserved shares will not be underwritten. **Proceeds** —For general corporate purposes.

National Union Fire Insurance Co. of Pittsburgh, Pa. (9/29)
Aug. 5 filed 180,000 shares ($5 par) capital stock. **Underwriter**—The First Boston Corp., New York. **Offering**—Stockholders of record Aug. 25 are given the right to subscribe at rate of nine shares for each 11 shares held. Rights expire at 10 a.m. Sept. 29. Unsubscribed shares will be offered publicly through the underwriters.

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Price $25 per share. **Proceeds**—To be added to cash funds for investment in securities.

Old Poindexter Distillery, Inc., Louisville, Ky.
Mar. 31 filed 50,000 shares ($20 par) 5% convertible cumulative preferred and an unspecified number of ($1 par) common shares into which the preferred is convertible. **Underwriters**—F. S. Yantis & Co., and H. M. Byllesby & Co., both of Chicago. **Price**—At par. **Proceeds**—To be added to working capital. Offering indefinitely postponed.

Pacific Finance Corp. of California (9/4)
Aug. 11 filed 150,000 shares ($10 par) common. **Underwriter**—The First Boston Corp., New York. **Price**—By amendment. **Proceeds**—For working capital.

• **Pac's Enterprises, Inc., Seattle, Wash.**
Aug. 20 (letter of notification) 3,860 shares ($1 par) common and 19,300 shares of ($10 par) preferred. **Price**—$51 per unit, consisting of one share of common and five shares of preferred.

Pan-American Export Corp., Newark, N. J.
Aug. 14 (letter of notification) 93,000 shares ($1 par) Class A common and 23,250 warrants for purchase of Class A common. **Price**—$2.625 per common share and warrants are to be sold to the underwriter at one cent per warrant. **Underwriter**—Henry P. Rosenfeld Co., New York. For expansion.

Pasco Mining Corp. Ltd., Montreal, Quebec, Canada
Aug. 8 filed 333,333 shares of common, nominal value of $1. **Underwriter**—Mercer Hicks & Co., New York. **Price**—30 cents a share, Canadian funds. The underwriter receives a discount of 7½ cents a share, Canadian funds. **Proceeds**—For exploration of mining property.

Quebec Gold Rocks Exploration Ltd., Montreal
Nov. 13, 1946, filed 100,000 shs. (50¢ par) capital stock. **Underwriter**—Robert B. Soden, Montreal, director of company. **Price**—50¢ a share. **Proceeds**—For exploration and development of mining property.

Raleigh Red Lake Mines, Ltd., Toronto, Can.
June 9 filed 460,000 shares of stock. **Underwriter**—Mark Daniels & Co., Toronto. **Price**—25 cents a share. **Proceeds**—To finance diamond drilling and land surveys.

• **Red Rock Bottling Co. of Cleveland**
Aug. 22 (letter of notification) 149,700 shares ($1 par) common of which 39,140 shares will be sold at $1.50 each upon exercise of warrants originally offered by Red Rock Bottling Co. of Pittsburgh and Red Rock Bottling Co. of Youngstown, both of which are being merged into the registrant. The remaining 110,560 shares are to be issued in exchange for the outstanding common of the two companies being merged with the issuer. No underwriting. Proceeds from the sale of 39,140 shares will be used for working capital.

Refrigerated Cargoes, Inc., New York
Feb. 3 filed 25,000 shares ($100 par) 6% cumulative preferred and 25,000 shares (no par) common. **Underwriter**—John Martin Rolph, Vice-President and director of company. **Price**—The stocks will be sold at $105 per unit consisting of one share of preferred and one share of common. **Proceeds**—To be used in organization of business

Republic Pictures Corp., New York
Registration originally filed July 31, 1946, covered 184,823 shares of $1 cumulative convertible preferred ($10 par) and 277,231 shares (50c par) common stock, with Sterling Grace & Co. as underwriters. Company decided to issue 454,465 shares of common stock only, which were to be offered for subscription to stockholders of record Sept. 5, 1946, to the extent of one share for each five held. Issue not to be underwritten.

Reserve Insurance Co., Chicago
Aug. 6 (letter of notification) 30,000 shares ($5 par) common. **Price**—$10 a share. **Underwriting**—Ray T. Haas, Chicago. To augment existing capital and surplus of company.

Revere Racing Association, Inc. (9/15)
July 29 filed 140,000 shares (no par) common. **Underwriter**—Bonner & Bonner, Inc., New York. **Price**—$5.75 a share. **Proceeds**—The shares are being sold by stockholders who will receive all net proceeds.

Russell (F. C.) Co., Cleveland
Aug. 20 filed 113,678 shares ($1 par) common. **Underwriter**—McDonald & Co. **Price**—By amendment. **Proceeds**—Shares are being sold by stockholders who will receive proceeds.

Salant & Salant, Inc., New York
March 28 filed 240,000 shares ($2 par) capital stock. Underwriter—Eastman, Dillon & Co., New York. Price by amendment. Proceeds—Shares are being sold by 13 stockholders who will receive proceeds.

• **San Diego Gas & Electric Co., San Diego, Calif. (9/16)**
Aug. 21 filed 300,000 shares ($10 par) common. **Underwriting**—To be determined by competitive bidding. Probable bidders included Blyth & Co., Inc.; White, Weld & Co. and Shields & Co. jointly. **Proceeds**—To reimburse treasury funds for capital expenditures heretofore made. It plans to use an amount equal to such net proceeds to finance, in part, its 1947 construction program. **Business**—Public utility. **Bids**—Expected to be opened Sept. 16.

Santa Maria Mines, Ltd., Toronto, Canada
Aug. 4 filed 250,000 shares ($1 par) capital stock. **Underwriter**—Mark Daniel, Toronto. **Price**—50 cents a share (Canadian funds). **Proceeds**—For corporate purposes.

Seaboard Finance Co., Los Angeles
Aug. 20 filed 100,000 shares ($50 stated value) convertible preferred. Company also registered an unspecified amount of common to be issued upon exercise of the conversion privilege of new preferred. It also will sell $1,250,000 of 4% subordinated notes, due 1951, to Mutual Life Insurance Co., New York. **Underwriter**—The First Boston Corp., New York. **Offering**—New preferred will be issued in exchange for outstanding class A and B preferred stocks. Shares of new preferred not issued in exchange will be offered publicly. **Price**—For public offering to be supplied by amendment. **Proceeds**—To redeem old preferred and for working capital.

Service Caster & Truck Corp., Albion, Mich.
April 10 filed 32,000 shares ($25 par) $1.40 convertible preferred and 53,962 shares ($1 par) common. **Underwriter**—Smith, Burris & Co., Chicago. **Price**—$25 a preferred share and $10 a common share. **Proceeds**—Proceeds, together with funds to be provided by a term bank loan, will be used to discharge indebtedness to Domestic Credit Corp.

Silver Creek (N. Y.) Precision Corp.
Aug. 13 (letter of notification) $300,000 of 5% sinking fund convertible debentures and a maximum of 66,666 shares of 40 cents par common for conversion of debentures. **Price**—$95 per debenture to be offered to stockholders. It is contemplated that after Sept. 2 they will be offered to the public at not more than $100. No underwriting. For additional working capital.

Slocan Charleston Mining Co., Ltd., Kaslo, British Columbia
Aug. 13 filed 200,000 shares ($1 par) common. **Underwriters**—Elmer J. Edwards and Van Tine, both of Seattle, Wash. **Price** — 50 cents a share. **Proceeds** — For mining equipment, development work and for working capital.

Southeastern Development Corp., Jacksonville, Fla.
July 29 (letter of notification) 8,000 units consisting of one share ($10 par) 6% cumulative preferred and one share ($1 par) common. **Price**—$12.50 per unit. **Underwriter**—Southeastern Securities Corp., Jacksonville. For working capital.

Southwest Lumber Mills, Inc., McNary, Ariz.
Aug. 11 (letter of notification) 40,000 shares ($1 par) capital stock. **Price**—$7.50 a share. To be offered to stockholders. Any shares not purchased by stockholders will be bought by Imperial Trust Co., Ltd., of Montreal, Can. To restore working capital.

• **Standard-Thomson Corp., Dayton, O.**
Aug. 27 filed $1,750,000 5% sinking fund debentures, due 1967, and 272,500 shares of common (par $1). **Underwriters**—Lee Higginson Corp., and P. W. Brooks & Co., Inc., New York. **Offering**—The debentures with common stock warrants attached will be offered publicly. The common shares will be reserved for conversion of debentures. **Business**—Manufacturer of aircraft and automobile equipment. Upon completion of financing company will merge its wholly-owned subsidiary, Clifford Mfg. Co., Boston.

• **State Bond and Mortgage Co., New Ulm, Minn.**
Aug. 26 filed $1,000,000 of Series 1305 certificates; $1,915,200 of Series 1207-A certificates; and $19,706,400 of Series 1217-A certificates. Underwriting to be sold through officers and employees of the company and its own sales organization, headed by its sales manager, Hermann T. Tucker. **Price**—Series 1305 certificates, $1,000 per $1,000 face amount certificate; Series 1207-A certificates, $957.60 per $1,000 face amount certificate, and Series 1217-A certificates, $856.80 per $1,000 face amount certificate. Proceeds for investment. **Business**—Issuing and selling face amount certificates.

Strauss Fasteners Inc., New York
March 25 filed 25,000 shares of 60 cents cumulative convertible preferred. **Underwriter**—Floyd D. Cerf Co. Inc., Chicago. **Offering**—The shares initially will be offered for subscription to common stockholders of Segal Lock & Hardware Co. Inc., parent, at $9 a share in the ratio of one share of preferred for each 30 shares of Segal common held. Unsubscribed shares of preferred will be offered publicly at $10 a share. **Proceeds**—For additional working capital.

• **Talisman Mining and Leasing Co., Spokane, Wash.**
Aug. 18 (letter of notification) 500,000 shares of common. Price, 15 cents a share. To be sold through officers and directors of the company. To retire current liabilities and for general mining expenses.

Tennessee Gas Transmission Co. (9/10)
Aug. 18 filed $40,000,000 of first mortgage pipe line bonds, due 1967, and 100,000 shares ($100 par) cumulative preferred. **Underwriters**—Stone & Webster Securities Corp., and White, Weld & Co., New York. Price by amendment. **Proceeds**—To finance new construction and repay $7,500,000 of outstanding notes.

Texas Co., New York
Aug. 14 filed an unspecified number of common (par $25) shares (maximum number, 2,248,932 shares). **Underwriters**—No underwriting. **Offering**—Shares will be offered at below the market price for subscription to stockholders. Price by Amendment. **Proceeds**—To be added to general funds for corporate purposes.

• **Texas Electric Service Co., Fort Worth**
Aug. 27 filed $7,000,000 30-year first mortgage bonds. **Underwriting**—To be determined by competitive bidding. Probable bidders include: Blyth & Co., Inc.; Smith, Barney & Co., and Kidder, Peabody & Co. (jointly); The First Boston Corp.; Halsey, Stuart & Co. Inc.; Hemphill, Noyes & Co., and Drexel & Co. (jointly); Glore, Forgan & Co., and W. C. Langley & Co. (jointly); Harriman, Ripley & Co., and Stone & Webster Securities Corp. (jointly); White, Weld & Co., and Lazard Freres & Co. (jointly). **Proceeds**—To finance construction expenditures. **Business**—Public utility.

• **Texon, Inc., Russell, Mass.**
Aug. 25 (letter of notification) 8,000 shares ($25 par) 5% cumulative preferred and 50,000 shares (no par) common. **Price**—$25 a preferred share and 60 cents a common. Of the common, 26,000 shares will be sold to four officers and the balance will be offered to purchasers of preferred on the basis of three shares of common for one share of preferred purchased. No underwriting. For organization of business and for working capital.

Textron Inc., Providence, R. I.
Feb. 28 filed 300,000 shares ($25 par) 5% convertible preferred. **Underwriters**—Blair & Co., Inc., New York, and Maxwell, Marshall & Co., Los Angeles. Price by amendment. **Proceeds**—For payment of $3,950,000 of bank loan notes; purchase of two notes issued by a subsidiary, Textron Southern Inc. in the amount of $1,000,000 each, and for working capital. Offering date indefinite.

Thomascolor Inc., Los Angeles
July 9 filed 1,000,000 shares ($5 par) class A common. **Underwriter**—No underwriting. **Price**—$10 a share. **Proceeds**—To purchase production facilities and for working capital.

• **Underwriters International Inc., Detroit**
Aug. 18 (letter of notification) 4,450 shares of preferred and 11,125 shares of common. Price, $10 a preferred share and $1 a common share. To be sold through salesmen. For working capital.

• **United National Insurance Co., Atlanta, Ga.**
Aug. 25 (letter of notification) 15,000 shares ($10 par) common. **Price**—$20 a share. No underwriting. To capitalize the company.

United Utilities & Specialty Corp., Boston
July 10 filed 75,000 shares ($10 par) 5% cumulative convertible preferred. **Underwriter**—Herrick, Waddell & Co., Inc., New York. **Price**—$10 a share. The underwriters will receive a commission of $1.50 per share. In addition, they will be granted warrants to purchase 50,000 shares of the issuer's common at $5 a share. **Proceeds**—For additional working capital.

Utah Chemical & Carbon Co.
Dec. 20 filed $700,000 5% 15-year convertible debentures due 1962, and 225,000 shares ($1 par) common. The statement also covers 112,000 shares of common reserved for conversion of the debentures. **Underwriter**—Carver & Co., Inc., Boston. **Price**—Debentures 98; common $3.75 per share. **Proceeds**—For plant construction, purchase of equipment and for working capital. Registration statement became effective June 28.

Vauze Dufault Mines, Ltd., Toronto, Canada
Mar. 31 filed 500,000 shares ($1 par) common. **Underwriter**—Name to be filed by amendment. **Price**—50 cents a share. **Proceeds**—For general operating expenses.

Weber Showcase & Fixture Co., Inc.
Mar. 31 filed 108,763 shares ($5 par) common. **Underwriters**—Blair & Co., Inc. and Wm. R. Staats Co. **Offering**—Shares will be offered for subscription to Weber's common stockholders. Certain shareholders have waived subscription rights. **Proceeds**—To retire preferred stock and to reduce bank loans. Reported July 16 that the present plans will be entirely changed.

Westvaco Chlorine Products Corp. (9/3)
Aug. 18 filed 30,000 shares of $3.75 cumulative preferred and 30,000 shares of common, both without par value. **Underwriter**—F. Eberstadt & Co., Inc., New York. Price by amendment. **Proceeds**—Complete soda ash mining facilites in Wyoming and construction of a soda ash plant.

Wisconsin Power & Light Co., Madison, Wis.
July 30 (by amendment) 10,000 shares of common stock (par $10) to be sold by Middle West Corp. The original statement filed May 21, 1946 covered 550,000 common shares.

• **Woodmore-Drake Oil Corp., New York (9/2)**
Aug. 22 (letter of notification) $150,000 series A income participation 5% notes and 7,500 shares common stock (no par). **Price**—$100 per unit, consisting of five shares of stock and $100 of notes. **Underwriter**—E. J. Drake, 535 Fifth Avenue, New York. Organization expenses, liquidation of mortgages, purchase of properties and working capital.

Prospective Offerings

• **Alabama Power Co.**
Aug. 26 reported company has under consideration the issuance of $10,000,000 new mortgage bonds, to be sold at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Drexel & Co.; Lehman Brothers, and Blyth & Co. Inc. (jointly); Harriman, Ripley & Co.; Goldman, Sachs & Co.; Lazard Freres & Co., and Equitable Securities Corp. (jointly). Expected in October.

Chicago, St. Paul, Minn. & Omaha (9/3)
Bids for the purchase of $1,560,000 equipment trust certificates to be dated Oct. 1, 1947 and due $15,600 annually Oct. 1, 1948-57 will be received up to noon (CDT) Sept. 3, at office of R. L. Williams, President, 400 West Madison St., Chicago. Probable bidders include Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler.

• **Colorado & Southern Ry.**
Bids will be received until noon (CDT) Sept. 4 by company at Room 205, 547 W. Jackson Boulevard, Chicago, for loan not to exceed $244,858 from time to time before Dec. 31, 1947 for financing acquisition of three diesel-electric switching locomotives.

● **Georgia Power Co.**
Aug. 26 reported company contemplates issuance of $10,000,000 mortgage bonds to be sold competitively. Probable bidders include: Halsey, Stuart & Co.; Morgan Stanley & Co.; Blyth & Co.; Lehman Brothers; Harriman Ripley & Co.; Goldman, Sachs & Co.; Lazard Freres & Co., and Equitable Securities Corp. (jointly).

● **Joy Manufacturing Co.**
Nov. 5 stockholders will vote on increasing authorized capital from 1,000,000 shares common to 3,100,000 shares, to consist of 100,000 shares preferred and 3,000,000 shares common. Directors are presently considering plans to issue 40,000 shares convertible preferred to be first offered for subscription to stockholders.

● **Monongahela Power Co. (9/15)**
Aug. 11 company asked the SEC for authority to issue and sell competitively $7,000,000 30-year first mortgage bonds and 40,000 shares ($100 par) cumulative preferred stock. Probable bidders include W. C. Langley & Co. and The First Boston Corp. (jointly); Lehman Brothers; Harriman Ripley & Co. and Lazard Freres & Co. (jointly) (bonds only); Glore, Forgan & Co. (bonds only); Halsey Stuart & Co Inc. (bonds only). Blyth & Co. and Goldman, Sachs & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane (bonds only); Kidder, Peabody & Co., and White, Weld & Co. (jointly). Bids expected about Sept. 15.

● **New England Telephone & Teleg. Co. (9/30)**
July 30 the New Hampshire P. S. Commission announced an application by the company for permission to issue $40,000,000 of debentures. Most of the proceeds would be used to repay advances to company's parent, American Telephone & Telegraph Co., which amounted to $32,100,000 on June 30. The borrowed money was used for a new plant. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc. **Bids** for purchase of debentures expected about Sept. 30.

● **Pacific Telephone & Telegraph Co. (10/21)**
Aug. 26 California P. U. Commission authorized company to sell $100,000,000 40-year debentures on a competitive basis. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc. The proceeds will be used to repay advances from the American Telephone & Telegraph Co. and help meet plant construction expenditures. Registration with SEC expected about Sept. 20 with bids due Oct. 21.

● **Peabody Coal Co.**
Aug. 22 stockholders approved recapitalization plan whereby arrearages on preferred will be eliminated and voted an initial issue of $20,000,000 first mortgage series A bonds to be dated Oct. 1, 1947 or later. Initial amount to be issued will not exceed $16,000,000. Proceeds will be used to finance construction of three additional mines.

● **Potomac Edison Co.**
Aug. 26 reported company contemplates sale of $2,500,000 bonds and 30,000 shares (par $100) preferred. Probable bidders include The First Boston Corp., and W. C. Langley & Co. (jointly).

● **Southern Co.**
Aug. 21 the directors of Commonwealth & Southern Corp. authorized the transfer to the Southern Co. of the common stocks of Alabama Power Co., Georgia Power Co., Mississippi Power Co., Gulf Power Co. and Commonwealth's investments in Savannah River Electric Co. Southern Co. intends to make application to the SEC for the sale of common stock in order to raise $10,000,000 to be invested in the common stocks of its subsidiaries for their construction programs. Probable bidders: The First Boston Corp.; Harriman, Ripley & Co.; Morgan Stanley & Co.

● **Texas Power & Light Co.**
Aug. 26 reported company plans sale of $8,000,000 bonds early in October. Probable bidders include: Blyth & Co., Inc.; Smith, Barney & Co., and Kidder, Peabody & Co. (jointly); W. C. Langley & Co., and Glore, Forgan & Co. (jointly); Halsey, Stuart & Co. Inc.; The First Boston Corp.; Hemphill, Noyes & Co., and Drexel & Co. (jointly); White, Weld & Co.; Lazard Freres & Co., and Harriman Ripley & Co. (jointly).

● **Wisconsin Public Service Corp.**
Aug. 26 company discussing a permanent financing program with the SEC which contemplates the sale of $6,000,000 of bonds and $5,000,000 of common stock this year and next.

U.S. Task in Promoting World Peace

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release of the energies and initiative of the individual has resulted in our unrivaled productivity. It is only by ever expanding our productivity that we can remain strong and free.

In facing the struggle ahead we should not underestimate our strength. Our nation, with less than 6% of the people of the world, has greater industrial production than the combined production of the rest of the world. We have developed a system through which an American worker can produce many times more than in any other country. For instance less than half a million American miners produced last year 50% more coal than did two million miners in Europe. Twenty per cent of our people are engaged in agriculture. This small number has fed our people here far better than anywhere else and yet there remained for export last year more food than the exports of all the rest of the world put together. We must understand the factors that have resulted in this remarkable achievement in productivity, cherish and expand them and let nothing interfere with their preservation and growth. And yet we know that under our system all groups within our country have not fared equitably in the fruits of our productivity and in the security of their lives. Greater security for those who have the will to work or are handicapped, and more equitable distribution of the fruits of labor must be our constant goal. Yet with it all we must retain the individual incentive for even greater achievement.

It is a fact that the leaders of Soviet Russia, although they recognize our accomplishments, are convinced from the teachings of their Marxian dogma that a free capitalist country cannot maintain stability, that thus we will within a few years find ourselves in a severe depression which will pull the world down with us and so weaken us that we can no longer continue our leadership.

It is their conviction that when we go into a decline economic chaos will again develop in the world, giving them an opportunity to push forward and expand the areas of their domination. With our increased understanding of economic forces and the increased willingness of all groups to work together, there is no reason to lack confidence in our ability to achieve greater stability in our economy. Certainly a healthy foreign trade based on a two-way exchange of goods can contribute to our own prosperity and stability. Today one man out of every 12 employed in this country makes his living by producing things for export. We need increasing imports of basic materials to maintain our present level of production.

Must Be Armed

And this leads me to my second factor. We must maintain a strong, well balanced military establishment to protect ourselves in cooperation with other peaceful nations against military aggression. The last war developed the overpowering strength of air power. A strong air force is not only a means of defense, but it is the only means of quick retaliation. If powerful enough it can be a compelling restraint upon those with aggressive motivations. In this atomic age there is no protection against retaliation by air. Our ability to launch an immediate strong retaliation by air is the greatest possible deterrent against the use of military force by others. Our peaceful intentions are so clearly understood the world over that no man who has peaceful purposes fears the military strength of the United States. His only fear is that the United States will not maintain a strong enough military power to discourage aggressive intentions.

But important as economic and military strength at home may be to our own survival, in the long run our hopes must rest on the development of an effective organization among nations, which is the third factor which I want to emphasize. We have taken leadership in the development of the United Nations. With all of the setbacks we must not lose faith in this institution and the principles on which it is founded. In the language of the Charter of the United Nations we have agreed that we are, and I quote, "Determined to save succeeding generations from the scourge of war . . . to reaffirm our faith in fundamental rights . . . to unite our strength and maintain international security . . . to promote social progress and better standards of life in larger freedoms . . . and to employ international machinery for the promotion of economic and social advancement of all peoples."

Language could scarcely be clearer or stronger. We did not say that we would merely use our efforts to bring about these things. We have said that we are determined to do that.

The fact that one nation through the use of its veto is blocking the solemn purpose of the charter is not and should not deter us from our pledge. I quote from the recent words of our representative on the Security Council regarding the threat to peace from the actions of three Balkan countries against Greece: "The continued failure of the Security Council to take effective action cannot in the opinion of the United States Government preclude individual or collective action by states willing to act so long as they act in accordance with the general purposes and principles of the United Nations."

Must Afford Foreign Relief

We have thus recognized that we cannot stop with a statement of principles, which brings me to my fourth factor. If we are to make it possible for other countries to join with us in the organization of peace, we must counter wherever possible those forces of hunger, cold, disease and despair which work to undermine the foundations of freedom and peace.

It is a grim fact that there is a force in the world working to create chaos for its own ends whereas we and other free peoples are striving to reestablish production and economic order. We have already contributed generously to relief in Europe and we should not underestimate the progress that has already been made by the free people of Europe to restore their own production. Britain is back to prewar rates of industrial production. France, Belgium and Holland have almost regained that level. Some of the Scandinavian countries are ahead of prewar. But the fact remains that due to the vast destruction or dislocations of the war, production does not yet meet the needs. We are the only source of many of the things which are still required and without aid from us the efforts of the people of Western Europe cannot be successful in reconstruction. Europe has always imported food from abroad. They have not yet attained the production of industrial goods needed to pay currently for the urgently needed food. Requirements are greater this year than normal because of the adverse effect of the bad winter on home grown crops. Production of coal in Europe as a whole, which was formerly in abundance, is still far below pre-war and inadequate to keep the wheels of industry running to capacity. Coal from the United States and machinery to increase production is still urgently needed.

Increased coal from Germany is an essential factor. We have undertaken to encourage the development of a peaceful Germany under democratic institutions. We have offered our Allies a 40-year treaty to insure this objective. Recovery in Germany has lagged far behind the neighboring western countries. In spite of the food that we have shipped, the Germans are living on a semi-starvation diet. Industrial production in the British-American bi-zonal area is only 38% of pre-war. Coal production in the Ruhr is only 50%. To assist in the recovery of Western Europe and to attain our objectives in the development of a democratic Germany we are now taking steps to increase production in Germany to establish a decent life for the 40 million Germans under our joint responsibility and to permit them to produce the much needed goods to aid in general reconstruction.

Hopes of the Marshall Plan

Secretary Marshall with wide approval in the United States has proposed to European countries that they work out together plans for mutual assistance and the maximum use of their own resources and then present to us a proposal of what is needed from the United States to make this cooperative program of reconstruction effective.

I was in Europe shortly after Secretary Marshall made his proposal and I can assure you that it was hailed by everyone in Europe except the Communists as a real basis for hope.

Sixteen nations are now conferring in Paris to develop such a program.

Strong as we are we have not unlimited resources. Therefore, in the meantime President Truman has appointed two groups within Government and another group of 19 distinguished private citizens working with me as Secretary of Commerce to study our capabilities in order that we may be prepared when we have received the proposals from Europe to propose to the Congress and to the peoples of the United States what positive steps we then should take. In our considerations we must be certain that the plans from Europe will produce the results that we have a right to expect, and we must be sure that our contributions can be safely and wisely given from the standpoint of the health of our own economy. I personally am confident that with the cooperative spirit that now exists among the 16 countries conferring in Paris a program can be worked out in which we can safely and wisely cooperate. If we are successful in working together with these nations, it will not be long before a healthy Western Europe will begin to re-emerge. With expanding production and increasing world trade, a stable and prosperous economic order can be established.

You men of the Pacific Northwest are especially interested in the East. It is our direct responsibility to help develop a peaceful and stable life in Japan to assist in the recovery of the East. We have a similar responsibility in Korea. The problems of China are grave. General Wedemeyer and a group of experts are now in China to report on the situation. There is no easy solution but if we have clarity of understanding with determination we can be of assistance in bringing order step by step out of the present chaos.

In appraising our own strength in the struggle for order and peace, we must understand the strength of those allied with us. It is not an exaggeration to say that we have on our side the peoples of the world who have struggled through the centuries for freedom. I have every confidence that with these peoples we can prevail against the totalitarian forces which thrive on chaos and threaten human liberty. As order develops, the threat will diminish and the maintenance of peace will become more and more assured. I have confidence that working together with people the world over we can bring order and maintain peace in the world.

In all that I have said there is a grave responsibility of our generation of Americans. It is not too much to say that the destiny of the future of mankind hangs upon the wisdom and determination of our actions. I sincerely believe that we have the ability to face and deal with these issues. It requires more than anything else faith in our institutions, confidence in ourselves and calm determination to persevere.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Aug. 31	93.4	92.8	94.4	89.4
Equivalent to—					
Steel ingots and castings produced (net tons)	Aug. 31	1,633,700	1,623,900	1,651,900	1,575,600
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Aug. 16	5,159,150	5,104,500	5,049,850	4,842,750
Crude runs to stills—daily average (bbls.)	Aug. 16	5,202,000	5,184,000	5,126,000	4,891,000
Gasoline output (bbls.)	Aug. 16	16,056,000	16,163,000	15,747,000	15,640,000
Kerosine output (bbls.)	Aug. 16	2,093,000	1,964,000	2,091,000	1,775,000
Gas oil and distillate fuel oil output (bbls.)	Aug. 16	6,061,000	5,932,000	5,912,000	5,115,000
Residual fuel oil output (bbls.)	Aug. 16	8,831,000	8,757,000	8,969,000	8,193,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Aug. 16	84,983,000	84,898,000	87,145,000	87,015,000
Kerosine (bbls.) at	Aug. 16	18,808,000	18,562,000	16,672,000	17,710,000
Gas oil and distillate fuel oil (bbls.) at	Aug. 16	51,685,000	49,545,000	46,505,000	49,843,000
Residual fuel oil (bbls.) at	Aug. 16	54,000,000	53,531,000	51,317,000	51,913,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Aug. 16	906,305	905,244	919,734	887,553
Revenue freight rec'd from connections (number of cars)	Aug. 16	686,019	692,757	651,744	691,869
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Aug. 21	$109,382,000	$57,401,000	$134,765,000	$96,979,000
Private construction	Aug. 21	65,991,000	24,425,000	75,468,000	56,185,000
Public construction	Aug. 21	43,391,000	32,976,000	59,297,000	40,794,000
State and municipal	Aug. 21	41,274,000	27,030,000	49,179,000	37,433,000
Federal	Aug. 21	2,117,000	5,946,000	10,118,000	3,361,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Aug. 16	11,750,000	*11,810,000	*12,100,000	12,013,000
Pennsylvania anthracite (tons)	Aug. 16	1,060,000	1,179,000	1,116,000	1,089,000
Beehive coke (tons)	Aug. 16	129,600	*129,800	110,700	130,100
DEPARTMENT STORE SALES—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Aug. 16	224	*223	217	239
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Aug. 23	4,952,876	4,923,000	4,730,000	4,444,040
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Aug. 21	59	78	76	17
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Aug. 19	3.19141c	3.19141c	2.88239c	2.70711c
Pig iron (per gross ton)	Aug. 19	$37.35	$36.52	$36.18	$28.13
Scrap steel (per gross ton)	Aug. 19	$37.92	$40.42	$40.00	$19.17
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Aug. 20	21.225c	21.225c	‡	14.150c
Export refinery at	Aug. 20	21.425c	21.425c	21.425c	16.175c
Straits tin (New York) at	Aug. 20	80.000c	80.000c	80.000c	52.000c
Lead (New York) at	Aug. 20	15.000c	15.000c	15.000c	8.250c
Lead (St. Louis) at	Aug. 20	14.800c	14.800c	14.800c	8.100c
Zinc (East St. Louis) at	Aug. 20	10.500c	10.500c	10.500c	8.250c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Aug. 26	122.49	122.55	121.86	123.27
Average corporate	Aug. 26	117.00	117.20	117.20	118.40
Aaa	Aug. 26	121.88	121.88	122.09	122.92
Aa	Aug. 26	120.22	120.22	120.22	120.63
A	Aug. 26	116.80	116.80	116.80	118.20
Baa	Aug. 26	109.79	110.15	109.97	112.56
Railroad Group	Aug. 26	112.19	112.56	112.37	115.04
Public Utilities Group	Aug. 26	118.40	118.80	118.60	119.00
Industrials Group	Aug. 26	120.43	120.43	120.63	121.46
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Aug. 26	1.51	1.51	1.55	1.52
Average corporate	Aug. 26	2.80	2.79	2.79	2.73
Aaa	Aug. 26	2.56	2.56	2.55	2.51
Aa	Aug. 26	2.64	2.64	2.64	2.62
A	Aug. 26	2.81	2.81	2.81	2.74
Baa	Aug. 26	3.18	3.16	3.17	3.03
Railroad Group	Aug. 26	3.05	3.03	3.04	2.90
Public Utilities Group	Aug. 26	2.73	2.72	2.72	2.70
Industrials Group	Aug. 26	2.63	2.63	2.62	2.58
MOODY'S COMMODITY INDEX	Aug. 26	417.2	421.8	418.2	338.9
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Aug. 23	224.2	223.9	221.3	188.4
Fats and oils	Aug. 23	176.4	180.0	198.6	227.8
Farm products	Aug. 23	256.4	257.4	259.4	224.1
Cotton	Aug. 23	323.3	329.4	352.5	338.3
Grains	Aug. 23	270.2	260.8	254.8	211.4
Livestock	Aug. 23	246.7	249.7	249.7	212.9
Fuels	Aug. 23	182.4	182.4	178.6	154.2
Miscellaneous commodities	Aug. 23	163.6	164.8	164.4	146.5
Textiles	Aug. 23	217.0	218.0	221.9	204.7
Metals	Aug. 23	159.2	159.1	150.1	124.5
Building materials	Aug. 23	225.8	221.9	194.7	177.4
Chemical and drugs	Aug. 23	149.7	149.7	152.0	127.5
Fertilizer materials	Aug. 23	130.8	129.7	129.5	121.4
Fertilizers	Aug. 23	135.5	*135.3	135.0	121.4
Farm machinery	Aug. 23	127.1	127.1	127.1	115.1
All groups combined	Aug. 23	206.8	206.8	203.6	176.4
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Aug. 16	165,092	169,653	145,615	158,304
Production (tons)	Aug. 16	182,090	174,180	173,699	166,363
Percentage of activity	Aug. 16	100	97	97	98
Unfilled orders (tons) at	Aug. 16	470,581	488,283	474,870	600,674
OIL, PAINT AND DRUG REPORTED PRICE INDEX—1926-36 AVERAGE=100	Aug. 22	139.7	140.4	141.2	136.3
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Aug. 16	152.7	152.2	150.3	128.3
Farm products	Aug. 16	181.4	181.2	182.4	163.3
Foods	Aug. 16	172.3	171.1	168.0	148.9
Hides and leather products	Aug. 16	177.8	176.5	172.7	138.4
Textile products	Aug. 16	139.7	139.5	138.4	114.9
Fuel and lighting materials	Aug. 16	111.0	110.7	107.1	96.5
Metal and metal products	Aug. 16	146.7	146.7	142.9	113.7
Building materials	Aug. 16	178.9	178.0	174.8	132.7
Chemicals and allied products	Aug. 16	117.2	116.9	117.9	98.3
Housefurnishing goods	Aug. 16	132.0	131.8	131.4	114.0
Miscellaneous commodities	Aug. 16	115.5	116.0	115.7	101.0
Special groups—					
Raw materials	Aug. 16	166.8	166.4	165.2	146.3
Semi-manufactured articles	Aug. 16	147.2	147.1	144.4	110.5
Manufactured products	Aug. 16	147.8	147.2	145.1	122.9
All commodities other than farm products	Aug. 16	146.5	145.9	143.3	120.6
All commodities other than farm products and foods	Aug. 16	135.4	135.2	132.9	110.8

*Revised figure. ‡No market—previous quotation 21.225c.

	Latest Month	Previous Month	Year Ago
ASSOCIATION OF AMERICAN RAILROADS—Month of July:			
Freight traffic handled by Class I RRs. (revenue ton-miles)—000's omitted	†52,000,000	*52,900,000	51,926,468
BANK DEBITS—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—Month of July	$93,733,000	$87,833,000	$91,358,000
BUILDING CONSTRUCTION IN URBAN AREAS OF THE U. S.—U. S. DEPT. OF LABOR—Month of May:			
All building construction	$426,000,000	$440,000,000	$416,000,000
New residential	228,000,000	242,000,000	266,000,000
New non-residential	126,000,000	124,000,000	90,000,000
Additions, alterations, etc.	72,000,000	74,000,000	60,000,000
Non-Federal—all building construction	418,000,000	429,000,000	360,000,000
New residential	228,000,000	240,000,000	214,000,000
New non-residential	120,000,000	116,000,000	90,000,000
Additions, alterations, etc.	70,000,000	73,000,000	56,000,000
Federal—all building construction	8,000,000	11,000,000	56,000,000
New residential	------	2,000,000	56,000,000
New non-residential	6,000,000	8,000,000	52,000,000
Additions, alterations, etc.	2,000,000	1,000,000	4,000,000
COAL (BUREAU OF MINES)—Month of June:			
U. S. exports of Pennsylvania anthracite (net tons)	714,249	831,239	365,914
To North and Central America (net tons)	365,452	386,271	261,498
To South America (net tons)	3,940	------	
To Europe (net tons)	344,571	434,222	104,416
To Asia (net tons)	286	10,746	------
To Africa (net tons)	------	------	------
COKE (BUREAU OF MINES)—Month of June:			
Production (net tons)	5,774,151	6,116,910	4,822,300
Oven coke (net tons)	5,325,051	5,530,350	4,444,400
Beehive coke (net tons)	449,100	586,560	377,900
Oven coke stocks at end of month (net tons)	668,461	670,500	616,261
COPPER INSTITUTE—For month of July:			
Copper production—			
Crude (tons of 2,000 lbs.)	79,389	*82,308	56,907
Refined (tons of 2,000 lbs.)	94,605	*103,448	43,606
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	109,817	116,652	97,527
Export (tons of 2,000 lbs.)	664	224	------
Refined copper stocks at end of period (tons of 2,000 lbs.)	76,570	*81,339	101,183
COTTON AND LINTERS—DEPT. OF COMMERCE—RUNNING BALES—			
Consumed Lint—Month of July	677,489	728,251	729,603
In consuming establishments as of July 31	1,400,077	1,677,014	2,282,384
In public storage as of July 31	900,510	1,229,817	4,463,577
Cotton spindles active as of July 31	21,415,434	21,324,316	21,578,390
Consumed Linters—Month of July	81,923	72,549	94,295
In consuming establishments as of July 31	200,583	221,999	255,221
In public storage as of July 31	64,989	68,887	56,347
COTTON SEED—DEPT. OF COMMERCE—			
Received at mills (tons) Aug. 1 to July 31	3,068,968	3,004,571	3,162,939
Crushed (tons) Aug. 1, to July 31	3,068,335	3,014,943	3,261,915
Stock (tons) July 31	98,339	107,334	117,806
COTTON SEED PRODUCTS—DEPT. OF COMMERCE—			
Crude Oil—			
Stocks (pounds) July 31	14,967,000	20,144,000	23,333,000
Produced (pounds) Aug. 1 to July 31	972,617,000	948,582,000	1,017,546,000
Shipped (pounds) Aug. 1 to July 31	975,966,000	951,422,000	1,018,480,000
Refined Oil—			
Stocks (pounds) July 31	171,342,000	203,856,000	263,154,000
Produced (pounds) Aug. 1 to July 31	911,907,000	885,620,000	952,491,000
Cake and Meal—			
Stocks (tons) July 31	46,916	87,614	31,629
Produced (tons) Aug. 1 to July 31	1,361,668	1,328,020	1,434,326
Shipped (tons) Aug. 1 to July 31	1,346,380	1,272,034	1,454,956
Hulls—			
Stocks (tons) July 31	35,484	39,955	25,925
Produced (tons) Aug. 1 to July 31	726,594	708,927	783,480
Shipped (tons) Aug. 1 to July 31	717,035	694,897	819,252
Linters—running bales—			
Stocks July 31	79,431	90,895	35,054
Produced Aug. 1 to July 31	991,195	968,054	988,800
Shipped Aug. 1 to July 31	946,818	912,213	972,322
Hull fiber (500-lb. bales)—			
Stocks July 31	149	313	503
Produced Aug. 1 to July 31	19,118	18,631	17,208
Shipped Aug. 1 to July 31	19,472	18,821	17,028
Motes, gabbots, etc. (500-lb. bales)—			
Stocks July 31	10,248	11,656	1,730
Produced Aug. 1 to July 31	39,137	38,219	42,914
Shipped Aug. 1 to July 31	30,619	28,293	43,635
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. 1935-39 AVERAGE=100—Month of July:			
Sales (average monthly), unadjusted	174	227	161
Sales (average daily), unadjusted	170	231	158
Sales (average daily), seasonally adjusted	254	254	236
Stocks, unadjusted as of July 31	194	206	*197
Stocks, seasonally adjusted as of July 31	205	215	208
EARNINGS OF U. S. CLASS I STEAM RYS. (INTERSTATE COMMERCE COMMISSION)—Month of June:			
Railway operating revenues	$696,908,689	$724,432,208	$611,998,248
Net revenue from railway operations	146,851,600	167,113,916	94,635,204
Railway operating income	74,198,120	89,768,603	49,970,512
Net railway operating income	60,201,057	75,728,895	37,824,952
GRAY IRON CASTINGS (DEPT. OF COMMERCE)—Month of June:			
Shipments (short tons)	1,038,356	1,097,307	757,268
For sale (short tons)	596,874	633,013	442,473
For producers' own use (short tons)	441,482	464,294	314,795
Unfilled orders for sale at end of month (short tons)	2,710,854	2,782,706	2,640,430
INTERSTATE COMMERCE COMMISSION—Index of Railway Employment at middle of July:			
1935-39 Average=100	†132.7	†133.0	129.5
NEW CAPITAL ISSUES IN GREAT BRITAIN—Midland Bank, Ltd.—Month of July	£45,715,000	£12,303,000	£31,461,000
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of July—			
Net sales	$609,139,700	$359,163,200	$157,800,000
Net purchases	------	------	------

*Revised figure. †Preliminary figure.

Food Prices Not Out of Line

(Continued from page 4)

easier. If our dollar had not become cheap or depreciated in value, that $193 billions of income would mean unprecedented prosperity for the country. Measured in the practical things of life, however, such as food, clothing, and shelter, we must divide that almost in half, and if we divide our individual incomes today by two we will find roughly where we really stand in comparison with our conditions before the war.

We are most fortunate in this country in that we did not suffer the destruction from war which was the lot of most of the countries engaged in the recent conflict. While we suffered shortages of many things, we were never actually hungry. Most people feel that, now the war is over, we should continue to increase the higher standard of living which the war brought us without making the sacrifices which are the inescapable result of conflict. They cannot visualize the destruction that has been wrought, and they cannot realize the sacrifices which must still be made to overcome the destruction of real wealth.

This country will undoubtedly follow its usual custom of helping other countries which are in want. We can hardly escape even coming to the relief of those who were our enemies. Probably for the ultimate good of everyone we should undertake to feed and help in other ways those unfortunate countries which stood the worst of the destruction. Our phenomenal crop yields during the war years were providential in that they enabled us to provide the food which won the war. We must realize, however, that our capacity to produce food in the United States is not unlimited. We have a tremendous crop of wheat, which is largely harvested. We have a few other crops which are comparable to those of last year's very high production, yet the great bulk of the production of foodstuffs in the United States is considerably less than that of last year, due largely to unfavorable weather. Practically all of our reports indicate a lesser production than we had hoped for. We must realize too that we have planted wheat on a great acreage of land which a few years ago was called the dust bowl. This land cannot remain permanently in production, because periodic drought will cause the soil to blow away.

Into our consideration we must also take the fact that we are increasing in population very rapidly in the United States. In the last 20 years we have added about 27 million people to the number which must be fed. This addition is almost as large as the population of England. I do not think that our present immigration laws can be strictly enough enforced to justify our thinking that a considerable number of Europeans who want to come to the United States can be excluded. We could use some of them to advantage if we could choose the type of workers we could readily absorb, but immigration certainly will add to our problem of feeding our people.

In spite of the foregoing, which all indicate high food prices, we probably can produce enough food here in the United States to take care of our own people and contribute to the relief of Europe. We cannot do it, however, unless our own economy is kept in reasonable balance. We find that the indexes of farm prices and costs have changed considerably since before the war. These indexes show that, while farm prices have increased, the costs of producing food have increased at a greater ratio. For these same kinds and quantities of food the general consuming public was paying, in the year 1920, from 29% to 30% of their income. In 1946, however, the average American family was paying but 17% of its income for food. Of the money paid at the grocery store or meat market, an average of 52c of each $1 was paid to the farmer in 1946. This would not seem to be an exorbitant rate, but would indicate that approximately the same ratio which has existed over a period of years is paid to the original producer.

There seems, therefore, to be no justification for the widespread belief that the farmer is profiting at the expense of the balance of our population. I well remember saying, in 1941, that any food shortages which might result from our war effort, or any increase in the cost of living, would probably be laid at the farmer's door. We are finding that this prediction is coming true.

One of the great causes for the difficulty which the average family finds in making its income meet its expenses is the tremendous increase in taxes. These taxes, with the exception of the income and real estate taxes, are in a great many cases hidden, so that the average person does not realize they are being paid. When we stop to figure that our taxes today are 20 times the taxes we paid in the years before the war, we must realize that our incomes cannot be taken at their face value.

We can readily agree that the farmer is prosperous if we gauge prosperity by the amount of money which passes through our hands. When we consider costs, however, and the fact that money is cheap, we find that there is very little net improvement in the farmer's financial situation. It cannot reasonably be considered that the approximately 3 million farmers who furnish the bulk of the food which comes into our markets could by any conspiracy raise the cost of food. The fact is that presently our food is in a competitive market where there is more demand for it, in most cases, than there is food produced.

We are paying, and will continue to pay, for this war and for the charity which we must offer to other nations which are in want. We will pay by our contributions through tremendously increased taxes, and we must expect to pay for them also through our cost of living. The sooner that every one of our citizens realizes and understands the facts behind our high prices, the quicker we will realize that only by hard productive work can we repair the loss and begin to increase our financial and material welfare.

As farmers, we expect to produce all that our land and the hazards of weather will let us of the crops which seem to be most needed. We expect occasional, local overproduction will occur which will keep our prices competitive and responsive to the laws of supply and demand. We do not feel that, in what seems to us a mad scramble between groups to get a larger percentage of the national income for themselves, we should be the innocent bystanders who eventually get blamed for the whole thing. Authentic figures for 1945 show the per capita income of persons on farms to be $743, and for those not on farms to be $1,259. That ratio hasn't materially changed.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

Remember how Mother used to say it was a good idea to feed the Old Gent a tasty meal before asking a favor? Mother's scheme mostly got results. It gets results in politics, too, and that's the reason Republicans and Democrats alike are snooping around for ways and means of blaming the drought and corn shortage on the other fellow running for office. They're both a little afraid to solicit votes from people hungry for meat.

* * *

As late as last week you could stir up an argument in Washington that feed corn might not be scarce. Now you can't. The economists—and the politicians — agree this year's crop can't satisfy needs. The only argument today is who's to blame—and who's to be blamed by voters when they seat a President next year. It might be interesting to ponder which fall guy you'll cuss when you pay a buck for eggs and maybe stalk out of the butcher shop without your steak just before elections.

* * *

Out of curiosity, watch and see if the Agriculture Department's experience chart which has been accurate since 1865 is confirmed in 1948. Here's what the chart indicates: (1) plenty of meat in the shops and lower prices this fall and early winter; (2) disappearance thereafter of top quality meat, appearance of more cuts from animals which haven't been corn fattened, and rising prices about April; (3) a slump in supply and continued upward lunge of prices to a peak of 25% above today's level somewhere between August and October. And remember—election in November.

* * *

Don't be surprised if that 1946 GOP slogan—"Had Enough?"—becomes next year — "Had Enough Meat?"

* * *

Keep an eye on the three joint congressional committees which move out of Washington next month to "investigate" high prices. They're after headlines, not facts. Don't be surprised if they degenerate into propaganda clinics publicly—and officially—urging consumers to strike against high prices, to buy only necessities. That might be important, might be dangerous and destructive. Ohio's Senator Taft is nominally chairman of the three but he'll lose control when they disperse into regional hearings.

* * *

Real fact is that Connecticut's Republican Senator Baldwin authored the legislation authorizing the price probe because he hoped to be chairman and thereby promote his ambition for national office—Vice-President or higher.

* * *

We're to pay more—instead of fewer—taxes under the Truman rule. Last January when the President was denouncing tax reducing legislation, his experts estimated that under existing revenue laws individual Americans would pay out of their pockets $19,120 million in direct Federal taxes in fiscal 1948. Now, they've upped that estimate to $21,195 million. This compares with actual payments of $20.408 million in fiscal 1947. To state it more bluntly, the government is taking about $1 billion more from us rather than $4 billion less as recommended by Republicans.

* * *

The Treasury economists have revised upward their estimate of direct taxes on corporations from $8,270 million in January to $8,449 million currently. This top still remains below the $9,678 million collected in fiscal 1947.

The Budget Bureau calculates that unpegging of Treasury bills and certificates will hike government interest payments on the public debt about $75 million in the current fiscal year. But revenue raisers remain debonair. They figure that since Federad Reserve banks now hold most of the securities benefitting from the higher short-term interest rates, the $75 million can be recaptured by the simple—and recently invoked—expedient of transferring the banks' "excess earnings" to the Treasury.

* * *

Cash redemption of veterans' terminal leave bonds is expected to boost the Federal outgo by approximately $50 million this fiscal year. Treasury experts estimate accumulated interest will total that figure. Face value of the bonds isn't regarded as a government expenditure, rather as debt liquidation.

* * *

President Truman has revised net expenditures of the Export-Import Bank in the present fiscal year downward by $80 million. He hasn't said why.

* * *

Congressional action in revoking RFC authority to make direct real estate loans and to provide a secondary market for GI mortgages insured by the Veterans Administration is to reduce expenditures of that agency $325 million this fiscal period, the Budget Bureau estimates. It is noteworthy that despite dire predictions to the contrary, the flow of funds into GI insured loans continues at a rapid rate since elimination of RFC's secondary market for such paper.

* * *

RFC, by the way, is about to undergo a functional reorganization made requisite by last session's legislation curtailing the corporation's activities. Some top as well as bottom people are to be fired.

* * *

The Federal Deposit Insurance Corporation holds that banking industry conditions are favorable in general, but corporation officials fret over what they regard as three prime weaknesses: (1) some banks still have a relatively large amount of substandard assets; (2) some banks provide inadequate protection against losses from defalcation; (3) capital accounts have not grown nearly as rapidly as assets and deposits. The ratio of total capital accounts to total assets of all insured banks declined from 13.2% at the close of 1934 to 6.5% at the close of 1946.

* * *

Says FDIC Chairman Maple T. Harl of this situation . . . "By far the most unfavorable situation which has developed among banks is a decline in ratio of capital to assets. One of the chief reasons for the existence of banks is to supply the credit needed in the economy. To do this, banks must have capital accounts sufficiently large to warrant assumption of the risks involved. New capital stock should be sold to the public to hasten the accumulation of capital commensurate with the added risks which banks are assuming in meeting the loan needs of business and individuals."

* * *

During 1946, first full year after the war's cessation, FDIC member bank loans on real estate increased 34%. Commercial and industrial loans increased 48%, and consumer loans 71%. The aggregate amount of such loans held by the banks mounted from less than $20 billion at the beginning to more than $28 billion at the close of 1946.

* * *

The number of our banks is continuing to increase, reversing the trend toward fewer such institutions which existed during the 11 years previous to 1945. At the beginning of this year, 14,759 banks were operating in the U. S and possessions. This represented a net gain of 34 banks in 1946 compared with an increase of 15 in 1945. In the 11 preceding years, declines had been recorded.

* * *

With the exception of L. C. Smith and Corona, the typewriter industry has decided to snub the government's bid for standard machines. The statutory $77 ceiling price is the reason. L. C. Smith and Corona have offered to provide 500 standards at the ceiling. All other companies are declining to supply any machines at that figure. The House Appropriations Committee is making a study of the ceiling, and it's a safe wager Congress next session will raise or wipe it out entirely.

* * *

Details of a new program of Federal Housing Administration insurance of private loans on small homes will shortly be forwarded to FHA field offices, banks, and other lenders. Object is to encourage the building of modest homes in rural areas and smaller communities. Maximum loan is $3,000. Briefly, the new regulations place the responsibility for sound construction and suitability of location directly in the hands of the lending institution and the builder.

* * *

Ben DuBois, Independent Bankers Association, Sauk Centre, Minn., spent $271.71 of members' dues on a trip to Washington in behalf of bank holding company legislation, he has advised Congress in a lobbyist registration statement. P.S.—The bill didn't pass.

* * *

A new Justice Department fad is an "exploratory" investigation or complaint calculated to shape public opinion. It's a streamlined version of the old witch hunt. The Department has been conducting such an "exploratory" inquiry into investment banker practices for the past year, hasn't caught the witch yet. Now the Department concedes its probe into the fixing of real estate commission rates is likewise "exploratory" —an effort to pan a little pay dirt and then pan somebody.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

At a meeting of the Board of Directors of **Fulton Trust Company of New York** held on Aug. 21, John A. Mack, Secretary of the Bank was appointed Treasurer and John Brooks, Assistant Trust Officer, was appointed Secretary and continues as Assistant Trust Officer.

* * *

Edward Congdon Looker, Vice-President of **Lamborn & Co., Inc.**, sugar brokers, of 99 Wall Street, New York and General Partner, of **Lamborn, Riggs & Co.**, commodity brokers, died on Aug. 23. He was 59 years of age. Mr. Looker joined the Lamborn interest in 1920, prior to which he was Vice-President of the B. T. Babbitt Co. He was a founder in 1940 of **Lamborn, Riggs & Co.**

* * *

Wilbur F. Burt, Vice-President and a director of the Socony Vacuum Oil Co., Inc., was elected a trustee of **Brooklyn Trust Company of Brooklyn, N. Y.** at a meeting of the Board of Trustees on Aug. 21. Mr. Burt has spent his entire business career with the Socony Vacuum organization and its predecessor, the Standard Oil Company of New York. Graduating from Amherst College in 1912, he began work with the Standard Oil Company of New York, leaving in 1917 to join the Army in the first World War. Returning from overseas in 1919, Mr. Burt became superintendent of the Pratt Refinery in Brooklyn and having later been transferred to other departments, eventually in 1927 becoming assistant to H. C. Smart, then Chairman of the Manufacturing Committee. He succeeded Mr. Smart in 1928 and in 1931 became a member of the Board of Directors. Following the formation of the Socony-Vacuum Oil Company, Inc., Mr. Burt became Vice-Chairman of that company's manufacturing committee and in 1935 he was made Chairman. He was elected a director of Socony-Vacuum in 1939 and was elected a Vice-President and member of the Executive Committee in 1944. Mr. Burt is a director of the Houdry Process Corporation and a trustee of Community Hospital in New York City and of Storm King School, Cornwall, N. Y.

* * *

The Corn Exchange National Bank and Trust Company, of Philadelphia announces the election of J. Mark Kirchgasser as an officer of the Bank, with the title of Personnel Director, effective Sept. 1.

* * *

Gov. Walter W. Bacon of Delaware announced on Aug. 20 the reappointment of John C. Darby as State Bank Commissioner for a four-year term effective on Aug. 25. The appointment is subject to confirmation by the State Senate, said advices Aug. 21 from Dover, Del., to the Philadelphia "Inquirer," from which we also quote:

"Mr. Darby is now completing his first term in office. Prior to his appointment he served as Cashier of the branch of the **Delaware Trust Co. at Frederica, Del.**, where he resides."

* * *

The National Bank of Dover, at Dover, Ohio, created through the merger of the Exchange National Bank, First National and State Savings Bank, all of that city, began operating on Aug. 18, it is learned from Dover advices in the Cleveland "Plain Dealer" of Aug. 19, which further reported:

"The new bank has resources of more than $8,500,000. Officers are D. C. Baker, Board Chairman; G. Tyler Brister, President; Alvin V. Lind and Ray H. Adkins, the latter of Cleveland, Vice-Presidents; A. W. Wagner, Cashier, and Don E. Frary, Comptroller."

* * *

The Greeley National Bank of Greeley, Colo., has increased its capital from $100,000 to $200,000, effective Aug. 5, through the sale of $100,000 of new stock. This was reported in the Aug. 11 bulletin of the Office of the Comptroller of the Currency.

* * *

Walter L. Rehfeld, Vice-President of the **Mercantile-Commerce Bank and Trust Co., St. Louis, Mo.**, has been elected First Vice-President of the Robert Morris Associates, a national organization of bank loan officials.

* * *

The Newport National Bank of Newport, Ky., increased its capital, effective Aug. 11, from $100,000 to $400,000 by a stock dividend of $300,000.

* * *

Barclays Bank (Dominion, Colonial & Overseas) announce that E. L. Jackson, Chairman of the South African Board, has been elected a Vice-Chairman of the bank.

AUG 29 1947

ESTABLISHED 1839

In 2 Sections—Section 2

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Convention Number | New York, N. Y., Thursday, August 28, 1947 | Price 30 Cents a Copy

Bunker Hill Monument

Convention · August 10-14, 1947

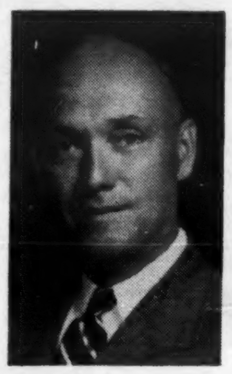
N. S. T. A. Officers and Executive Council

1948

SECRETARY

Edward H. Welch
Sincere & Co., Chicago

PRESIDENT



R. Victor Mosley
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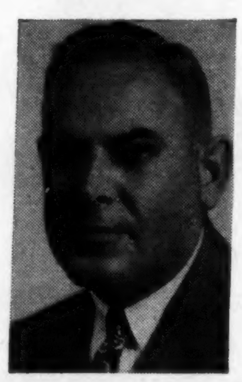
FIRST VICE-PRESIDENT

Paul Yarrow
Clement, Curtis & Co., Chicago

SECOND VICE-PRESIDENT

Michael J. Heaney
Jos. McManus & Co., New York

TREASURER



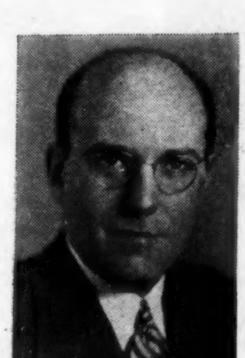
H. Frank Burkholder
Equitable Securities Corp., Nashville

John L. Canavan
Rauscher, Pierce & Co., Dallas

Thomas Graham
Bankers Bond Co., Louisville

Clair S. Hall
Clair S. Hall & Co., Cincinnati

Paul I. Moreland
Moreland & Co., Detroit



Edw. E. Parsons, Jr
Wm. J. Mericka & Co., Cleveland

Lawrence S. Pulliam
Weeden & Co., Los Angeles

1947

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TREASURER

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Paine, Webber, Jackson & Curtis, Boston

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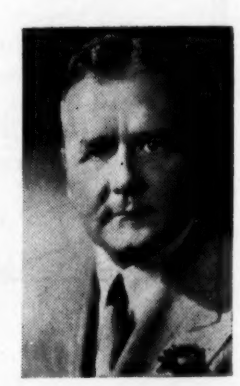
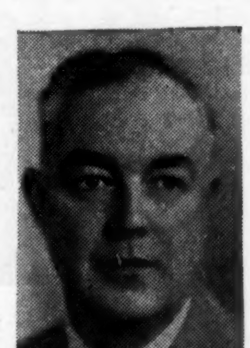


Thomas Graham
Bankers Bond Co., Louisville

Jack E. Jones
Hartley Rogers & Co., Seattle



John M. O'Neill
Stein Bros. & Boyce, Baltimore

Edw. E. Parsons, Jr.,
Wm. J. Mericka & Co., Cleveland

Jesse A. Sanders, Jr.,
Sanders & Newsom, Dallas

Past Presidents *of the* N. S. T. A.

1945-1946

Thomas Graham
Bankers Bond Co., Louisville

1944-1945

Edw. E. Parsons, Jr.
Wm. J. Mericka & Co., Inc., Cleveland

1942-1944

Wm. Perry Brown
Newman, Brown & Co., New Orleans

1941-1942

Joseph W. Sener
Mackubin, Legg & Co., Baltimore

1939-1940

Edward D. Jones
Edward D. Jones & Co., St. Louis

1941-1942

Herbert H. Blizzard
Hess, Blizzard & Co., Philadelphia

Congratulations!

THEY all call him "Vic,"
He's a very swell guy!

HE was born in Landsdown,
The seventeenth of July.

HE lives in New Jersey,
Collingswood is the town,

THERE his two pretty daughters
Will bring him renown!

HE works for Stroud Comp'ny,
His specialty there,

EQUIPMENT Trust Issues
He'll trade anywhere.

R. Victor Mosley

HE joined Union League.
In the Army, we're told,

HE once made a Captain
Both handsome and bold.

HE'S liked very well,
All folks think he's grand,

IN NSTA
He's much in demand.

ONCE head of the traders
They insisted he stay,

SO it's President again
Of NSTA!

1940-1941

Thomas A. Akin
Deceased

1938-1939

Willis M. Summers
Troster, Currie & Summers, N. Y. C.

1936-1938

Arthur E. Farrell
H. M. Byllesby & Co., Inc., Chicago

1936-1937

J. Gentry Daggy
H. M. Byllesby & Co., Philadelphia

1935-1936

Henry J. Arnold
Clair S. Hall & Co., Cincinnati

1934-1935

W. W. Cruttenden
Cruttenden & Co., Chicago

Thanks for the Cooperation!

We have often heard it said that our industry is either "a feast or famine"— and with this in mind your Advertising Committee planned with Herbert Seibert, the Editor and Publisher of the "Commercial & Financial Chronicle," a Post-Convention issue which we herewith present to you. Last year's results could not be used as a yardstick as conditions this year resulted in smaller profits for many of us; but in spite of such obstacles the members of the NSTA participated in this undertaking to a surprising degree and our NSTA treasury will receive more than its expenditures for the year. The success attained by your Committee this year was due in a large degree to the fact that our membership is taking a much greater interest in our work and such support is naturally accepted by us with much encouragement.

Harold B. Smith

We are pleased to extend our appreciation to Donald E. Summerell, Vice-Chairman, Wagenseller & Durst, Inc., Los Angeles; Thomas Euper, Cohu & Torrey, Los Angeles, and Larry Pulliam, Weeden & Company, Los Angeles, for their efforts in producing the largest percentage of renewals. Recognition with thanks must be given to our Boston Affiliate with Harry A. Madary, Vice-Chairman, Geyer & Company, and Sumner R. Wolley, Coffin & Burr, Inc., demonstrating the second largest producers of ads, when considering Boston was the host of the Convention and the entire financial fraternity of this great city was called upon in many ways to insure a successful convention. We hail our Boston affiliate for the most marvelous hospitality and for presenting one of the most successful conventions of all times. We, the advertising committee, further recognize their most unselfish cooperation and support by using our Post-Convention issue as their only advertising medium. We are indeed very proud of the Boston Security Traders Association!

Vice-Chairmen Clair S. Hall, of Clair S. Hall & Co., Cincinnati; Jack A. Hawley, Equitable Securities Corp., New Orleans, La., and Bert Horning of Stifel Nicolaus, St. Louis, Mo., together with Frank Loveland of Field, Richards & Co., Cincinnati, Ohio; Harold R. Chapel, McDonald, Moore & Co., Detroit; Lawrence N. Marr, of E. H. Rollins & Co., Chicago; Kermit B. Sorum of Allison, Williams & Co., Minneapolis, extended much assistance in securing contracts through their local affiliates. W. O. Alden of O'Neal, Alden & Co., Louisville, Ky. informed us he would do everything possible to arouse interest in our work and we are pleased to state results were obtained. Leslie Barbier of G. A. Saxton & Co., Inc., N. Y., who has received much praise for the many tasks he has accomplished in our own affiliate here—the New York Security Traders Association — was at all times eager to assist your Chairman. My personal thanks to you, Les!

We do not want to overlook the balance of our local affiliate chairmen who were most helpful by informing our members of the program of the National Advertising Committee. Much business resulted through their work and we salute them as Presidents of their local affiliates.

Our sincere thanks and grateful appreciation is extended to Messrs. Beck, Murphy, Riley and Strickland of the Commercial & Financial Chronicle for their work in securing contracts and it is our wish that our entire membership recognize these men in the final analysis as our real productive co-workers.

To the staff members of the Commercial & Financial Chronicle, we extend our greetings; and to the outstanding personality, who for the past several years has been responsible for the greatest source of income to our NSTA treasury, Herbert D. Seibert, Editor and Publisher of the "Commercial & Financial Chronicle" and a fellow member, we extend our most sincere and grateful thanks for his cooperation.

To our advertisers who made possible this effort, we feel greatly indebted and your cooperation is uppermost in the minds of 3,700 members of the NSTA.

We, the NSTA advertising committee, strongly recommend and urge the newly appointed committee to make every effort to obtain commercial advertising for such future undertakings. This is recommended in view of the increasing interest the entire membership are demonstrating and through financial contacts many lines of industry should be displayed in yearbook issues. And now may we sign off with "Hats off to Boston!"

HAROLD B. SMITH, Chairman
NSTA Advertising Committee
Collin, Norton & Co., New York 5, New York.

Vice-Chairmen: Leslie Barbier (G. A. Saxton & Co., Inc., New York 5, N. Y.); Jack A. Hawley (Equitable Securities Corp., New Orleans, La.); Harry A. Madary (Geyer & Co., Boston, Mass.); Clair S. Hall (Clair S. Hall & Co., Cincinnati, Ohio); Bert Horning (Stifel, Nicolaus & Co., Inc., St. Louis, Mo.), and Donald E. Summerell (Wagonseller & Durst, Inc., Los Angeles, Calif.).

Local Affiliate Chairmen: J. Wilmer Butler (Baker, Watts & Co., Baltimore, Md.); Sumner R. Wolley (Coffin & Burr, Inc., Boston, Mass.); L. N. Marr (E. H. Rollins & Sons, Chicago, Ill.); Franklin O. Loveland (Westheimer & Co., Cincinnati, Ohio); Jay L. Quigley (Quigley & Co., Cleveland, Ohio); Leonard O. Ritter (Paine, Webber, Jackson & Curtis, Connecticut); Judson S. James (James & Stayart Co., Dallas, Texas); Bernard F. Kennedy (Bosworth Sullivan & Co., Denver, Colo.); Harold R. Chapel (McDonald-Moore & Co., Detroit, Mich.); Thomas S. Pierce (C. C. Pierce Corp., St. Petersburg, Fla.); J. F. Settle (J. H. Hilsman & Co., Atlanta, Ga.); Lawrence Davis (McClung & Knickerbocker, Houston, Texas); Eldridge Robinson (Baum & Co., Inc., Kansas City, Mo.); Lawrence S. Pulliam (Weeden & Co., Los Angeles, Calif.); William O. Alden (O'Neal, Alden & Co., Louisville, Ky.); Robert H. Jordan (Mid-South Securities Co., Memphis, Tenn.); Matthew B. Pilcher (Mid-South Securities Co., Nashville, Tenn.); Joseph P. Minetree (Steiner Rouse & Co., New Orleans, La.); Michael J. Heaney (Joseph McManus & Co., New York, N. Y.); Frederick S. Fischer (H. N. Nash & Co., Philadelphia, Pa.); Charles N. Fisher (Singer, Deane & Scribner, Pittsburgh, Pa); John Galbraith (John Galbraith & Co., Portland, Ore.); Jerome F. Tegeler (Dempsey-Tegeler & Co., St. Louis, Mo.); Elmer L. Weir (Brush, Slocumb & Co., San Francisco, Calif.); Andrew A. Jordan (Jordan & Co., Seattle, Wash.); Keating L. Simons (James Connor & Co. Charleston, S. C.), and Kermit B Sorum (Allison - Williams Co., Minneapolis, Minn.).

Boston Is Glad You Came!

To the Members of the National Security Traders Association and their guests:

It was indeed a privilege and a pleasure to welcome so many of our guests in Boston at the Convention. I sincerely hope all enjoyed themselves to the utmost.

Sumner R. Wolley

I hope you noticed that the drab gray which covered our State House dome during the war years has been replaced with the traditional coat of 18 carat gold leaf, an indication that come what may elsewhere in the land, "The Hub of the Nation" still sticks to the Gold Standard.

It certainly was hot, but as all Chambers of Commerce would say, "You should have been here that week!"

SUMNER R. WOLLEY, *President*
Boston Securities Traders Association

What They Did at the Convention

By JOHN L. SHEA, Jr.
Chairman, Publicity Committee, Boston Securities Traders Association

The National Security Traders Convention, held in Boston Aug. 10-14, by all reports was known as the most successful convention in the Association's history.

John L. Shea, Jr.

The delegates started to arrive at the Hotel Statler, which was Convention headquarters, on Sunday afternoon. Special trains pulled in a little late and about 7:30 p.m. the unofficial festivities began with a reception and cocktail party. The feature of this party was the showing of motion pictures of past conventions and a scenic film on the beauties of New England. This was ably managed by Burt Whitcomb, of Blyth & Co., our photographer extraordinary.

Monday morning the Past Officers' Breakfast was held and the National Committee Meeting. The Official Welcoming Luncheon was at 1 p.m. A very interesting welcoming talk was given by Sinclair Weeks, Director of more companies than most people can remember, who recently returned from a trip to Europe for the United States Government. He was introduced by Lloyd Waring and he gave a very fine talk on the Russian situation and what we should do about it. Another excellent speech of welcome was given by Michael T. Kelleher, President of the Boston Chamber of Commerce.

Monday afternoon, the Municipal Forum was held. Speakers were Robert Cutler, President of the Old Colony Trust Company of Boston, and Reid Biggs of Hampton Roads Sanitary District Commission. Both of these addresses appear in subsequent pages of this supplement to the "Chronicle."

Monday evening there was a very pleasant cocktail party and then the Boston Association provided 250 tickets to the ball game (which Boston won) and about half the crowd went to the ball game.

On Monday, the ladies took a trip to Hingham and viewed assorted scenery. From all reports, they had a splendid time.

Tuesday was rather an active day with scheduled visits to various plants, golf tournaments and a sightseeing trip to historical spots to the north of Boston. One Harvard graduate was seen to faint when one of the out-of-towners asked him, "Is the Harvard campus worth seeing?" When revived he said, "You don't mean campus, old fellow, you mean Yard."

J. Arthur Warner & Co. threw a novel cocktail party at the Paddock Club on top of the clubhouse at nearby Suffolk Downs Race Track.

Wednesday there was a special discusion on newspaper quotations which was very much enlivened by the candid remarks of Vic Mosley, our President. There seems to be quite a difference of opinion about quotations throughout the country.

Wednesday afternoon and evening constituted the big day of the Convention for our visitors. Hubert N. Bernard of the Entertainment Committee, his official aide T. Edmund Williams and Mr. Williams' unofficial aide, Mrs. Sally Murphy absolutely outdid themselves with a cruise and clam bake. Believe it or not, they even had a fire-boat and put on an exhibition for the National Traders. There was a historian aboard with a loud speaker who told stories about spots of local interest as we cruised around Boston Harbor for about two hours. This boat trip was a life saver because the climate in Boston, which has been known to vary, changed from the cooler weather of the first two days of the convention to one of the hottest days on record in this vicinity. The boat landed at Pemberton where all disembarked. Tents had been set up. There was an Inn there large enough to accommodate all of those who wished to buy what Traders generally wish to buy. At the Inn, incidentally, there were two bars. Those Traders who shopped around for the best price found they could save 20 cents a drink by going to the smaller bar off the ballroom. The difference was that drinks at the main bar were subject to 20% amusement tax.

About 6:30 a genuine old-fashioned New England clam bake

(Continued on page 17)

Presidential Greetings

The National Security Traders Association, through its President, extends best wishes to its ever increasing circle of friends and sincere appreciation to those firms, services and financial publications that have so willingly assisted in our endeavors. Especially, do we acknowledge the aid, both editorially and financially, received through the "Commercial & Financial Chronicle."

R. V. Mosley

The Boston Securities Traders Association planned and carried through every detail of the Convention in faultless manner. Every one in attendance carried back home with them a new understanding of New England's hospitality and Yankee ingenuity. I present to our hosts for 1948—The Bond Club of Dallas—a challenge to surpass the Boston Convention.

Annual reports of most American corporations make pleasant reading today. The NSTA might well be likened to a large corporation, with 28 branches (affiliates) in nearly every large city and a personnel consisting of 3,600 individuals devoted, I believe, to capacity production of our products—"Good Will" to each other and the maintenance of "High Standards" toward the investing public. We can report a substantial growth over preceding years and our current financial condition, though humble, is sufficient for our immediate needs. The Association has added several new affiliates and shows a 20% increase in membership over last year.

With the aid of the newly elected officers and staff for next year, and a continuation of the wholehearted support of our membership, I am sure the National Security Traders Association has a good year in store for 1948.

R. V. Mosley, President
National Security Traders Association

Investor Confidence in the Securities Market

By EDMOND M. HANRAHAN*
Commissioner, Securities and Exchange Commission

Asserting "the old ringside atmosphere that clouded our relations is disappearing," Commissioner Hanrahan tells securities dealers "it is unnecessary to blow the whistle too frequently for minor inadvertent violation of rules. Stresses need of having honest investment market and holds securities dealers have attained a professional standard. Acknowledges function of dealers in maintaining orderly markets, and cautions against excessive mark-ups, churning and misrepresentation. Says Commission may be driven by public clamor to adopt market disclosure rule.

E. M. Hanrahan

The hospitality which you have extended to me fully justifies the great New England traditions. Not only am I gratified personally but I see it as a sign of the time that you and I can get together in a spirit of friendship and understanding to discuss our common problems. There is every indication that the old ringside atmosphere that clouded our relations is disappearing and that the spirit of the conference table is taking its place. On our part I think we have made it clear that we don't regard every securities salesman as guilty of violations of our Acts until he is proved innocent. And on your part, it is becoming increasingly more evident that you no longer believe the Commission to be an officially constituted star-chamber or heartless board of inquisitors, enforcing and administering its Acts unmindful of your particular business problems.

Hand-in-Hand Cooperation

We have done away with some of those old notions because over the past 14 years we have come to know a great deal about each other. You have learned that the Commission has earnestly tried to administer and enforce the laws within its jurisdiction with an understanding of the practical problems which have to be faced in your industry and with an eye toward the practical effect of its actions upon your business. We have learned that we can more efficiently accomplish the objectives outlined for us by the Congress by making every effort to understand your problems.

Associations such as this one have gone a long way toward making the Commission's position understood among members of the industry and making the industry's position known and understood by the Commission. In this spirit of hand-in-hand cooperation, I feel that we will finally achieve what is desired by us all, namely, a fair market in which customers have complete confidence, a market in which the public interest and the interest of investors rather than immediate profits is the primary aim of those concerned.

Your association has recognized for a long time, I am sure, that people in general will not invest in a dishonest market. They will not enter the securities field unless the rules of the game are fair and above board. They want to know what they are buying and they want no part of tailor-made markets. They want a security whose price is fixed by the untampered influence of the law of supply and demand. Above all, they want fair play in the securities field. They are entitled to it. No one can deny that and, of course, it is our job as referee to see that they get it.

Like any referee we recognize that it is extremely unpopular and unnecessary to blow the whistle too frequently for minor inadvertent violations of rules. We don't like to do it. You know how sparingly we call a "foul" and impose a penalty. It's true that this is accounted for chiefly by the general improvement in the game since 1933. The violations are not nearly so flagrant as formerly. The rough and tumble era appears to have passed. The players are now more sophisticated—more cognizant of their fellow players' rights and of the interests of the bystanders. Violations of the rules still occur to be sure but they have the air of refinement about them. They are a bit more difficult for us to uncover. And it is much less seldom than of old that the referee's whistle is heard. Let no one be deluded into believing that this results from any lack of proper supervision on our part. We have been on the job, I can assure you, and we propose to stay there to see to it that those few of you who cannot play fair and square are removed from the game.

I think it is a common belief among members of the Commission that the years have brought about a steady rise in the internal standards and morale of the securities business. The thief, the deliberate sharper, are now by far the exception. They come, of course, with every new generation and, like taxes, we know they will always be with us, but as time goes on they find life harder and their professional environment less congenial. I believe that associations like your own have assisted and will continue to assist in large measure in their removal from the field.

Diligence Not Be Relaxed

We can never afford to relax our diligence in investigating violations and enjoining them or bringing them to prosecution. That function is important to us in our sworn duty to administer the law. It is an important bulwark of public confidence in the securities profession that the public be assured that any wilful violation will be punished.

Of course, we do not measure our progress in terms of the number of prosecutions or injunctions we obtain. It is measured by a more subtle, but more pervasive and significant factor, the growth of ethical standards and ideals of customer service within the securities business itself. As a public body charged with the protection of investors we justify ourselves more by our constant effort to have the standards of the law become innate rules of behavior than by alleging them in bills for injunctions or in indictments. To us these injunctions and indictments obtained against members of the industry are considered not so much evidence of work done as they are indications that our main objective has not been accomplished; they are glaring signs that members of the industry are as yet unable to abide by the rules of the game and are incapable of exercising a directing, restraining, and governing influence over their own personnel.

If they have not already attained it, persons engaged in the securities business approach professional standards, and as professionals or quasi-professionals must be judged by standards worthy of that status. It is not consistent with the public interest to judge them by any other standard. They must not take advantage of the customer's lack of knowledge and thereby obtain profits for themselves in the market. They are, of course, entitled to a profit by being fairly compensated for their services. But that compensation should not come from excessive charges made possible by concealment of material facts and unfair dealing with customers.

Education in Fair Dealing

In my opinion one of the greatest challenges now facing professional organizations such as yours is to educate its members in the principles of fair trading and have such principles become part of their business alphabet. Yours is but one such association among several in a great business, a business which I believe to be essential to the existence of our present economy. Your business has played an extremely vital part in the growth and development of this nation. It affords a ready medium whereby investor capital can be placed behind production in growing industrial and other types of corporation and business enterprises. It has also afforded an ever present mart where security holders may dispose of their securities as needs be.

Members of your business are not "hucksters," they are the persons upon whom the public relies for market information and advice. They are the persons to whom the bulk of investors go for guidance. This reliance of individual investors upon the professionals in your field is the natural result of public bewilderment in the field of finance, a bewilderment which was born of a recognition that the choice of proper investments from the thousands of securities now outstanding is one which can best be made by experts in the securities markets. Since your business has throughout the years successfully sought to foster this dependence of public customers upon the professionals with whom they deal, you must give recognition to the responsibilities which spring from that dependence. This can best be done by keeping the securities market orderly and clean and by maintaining high standards of professional conduct in your customer relations. Give the customers the information they need to have when buying and selling securities. Buy from or sell to them, and purchase or sell for them at the fairest price possible. Put yourself in the customer's shoes. Deal with him as you would have others deal with you under

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*An address by Commissioner Hanrahan prepared for delivery at the Annual Convention of the National Security Traders Association, Inc., Boston, Mass., Aug. 14, 1947.

Free Enterprise—A Challenge to Business

By LAURENCE F. WHITTEMORE*
President, Federal Reserve Bank of Boston

New England banker, in pointing out U. S. is only great nation reverting to competitive free enterprise after war, holds public sentiment here is turning to the Right and the regimented economy of last 15 years is disappearing. Holds all this means we must make free enterprise work and asserts U. S. economic weight is sufficient to counterbalance Socialist economies of rest of world. Advocates revival of spirit of risk, and sees need of revision of tax laws and end of Government subsidies and tariffs.

There is probably no other business group in this country that has a greater interest in the subject which I have chosen for my remarks this afternoon than the National Security Traders Association. Your business is essentially the marketing of capital, and a private market for capital — for the securities of business and government in which you deal — is not only your bread and butter; it is the very core of a private enterprise system. It is also a manifestation of the democratic process, for investors, by voting their dollars, determine both the volume and kind of industrial expansion we shall have.

L. F. Whittemore

I have had considerable interest in the industrial side of security issues and have known for years many of your members. I know, therefore, that no words of mine are needed to sell you the private enterprise system. I have often thought that the day-to-day conduct of you business tends to concentrate your interest upon the paper in which you deal at the expense of your interest in the real assets which the securities represent, the government policies which may aid or hinder you, and the future welfare of the American way of life in which we all have firm faith and a material stake. I am going to talk to you, therefore, about some of the fundamental issues which challenge the continued strength and growth of our free private enterprise system.

A Challenge to Free Enterprise

The present situation is a challenge to all who believe in the American system of free enterprise as the chief support of the American way of life. The sternness of purpose of the friends of free enterprise is being tested at the present time, as the sternness of purpose of our system was tested during the recent war, although in a different manner. While the gigantic challenge of fighting the war and producing the goods to win the war called for tremendous effort, there was a lack of confusion and a singleness of purpose which we do not seem to have today. In those stirring days the path for Americans was plain to see. Though rough and rugged, it led to a definite goal; a goal which was achieved in less time than most of us would have predicted. The path now is often obscure, leading off into byways of disagreement, selfishness and shortsightedness stimulated by the clamor of organized minorities. If our economic system is worth saving, and most of us think it is, we must bring back completely the checks and balances of competition and the forces of supply and demand. The nearer we come to a free economy the more nearly we will be able to get along without subsidy payments by government either directly or indirectly to various classes of our citizens.

The last two decades will go down in history as those in which the opportunity of the majority of the people was circumscribed by the pressure of organized minorities properly or improperly seeking special favors for special groups. The present seems to be a good time to bring about the organization of the majority, not in one group or under one leadership, but in many several groups, under many leaderships, having in mind the same great purpose; that is, the return to free enterprise. This constitutes a challenge to Americans.

For the last 15 years responsibility for the economic future of this country has to a greater or lesser degree been assumed by the central government. Government took the initiative from business during the great depression following 1929 and with the excuse of one emergency after another held the initiative until the outbreak of the war which necessitated central direction of the whole private economy.

Public Sentiment Away From Left

There has been a significant turn of public sentiment during the last year away from the left at least toward the middle. I say toward the middle because to imply that public sentiment has turned to the right might be understood as a declaration that it has turned reactionary, whereas in fact it has merely turned back toward the system of private initiative and individual freedom which is in the best tradition of the country. With this change in public sentiment, private business and industry have shouldered, whether we like it or not, a degree of responsibility which a good many people have forgotten that they once had. When the government controlled a large area of the economy, private business occupied the position of a cooperative but—at least in the years before the war—critical opposition. Now business and industry once again have the responsibility of which they were relieved when the central government took the initiative.

The change in public sentiment in this country in favor of the continuance of a free private enterprise system is in direct contrast to the changes which occurred in almost every other major industrial nation in the world. Go down the list of the major industrial countries—England, France, Russia, Germany, Italy, Japan, even Australia and the growing nations of South America— all have adopted either a completely socialistic economic system or are well along the road toward central government direction of all economic affairs. This nation and Canada stand almost alone in their faith in the revival of the private enterprise system.

Merely to catalog the countries that have turned toward government control of their economic affairs, however, fails to tell the whole story of the importance of those parts of the world which still rely on private enterprise. We should not forget that this nation alone accounts for almost half of the world's production and of its income. Our economic weight, if used properly, is sufficient to counterbalance most of the rest of the world. What we do here will probably determine the future of the private enterprise system and to a large extent the future of the democratic system of government.

Winston Churchill in his speech before the House of Commons on Aug. 16, 1945, giving his final review of the war and his first major speech as leader of the Opposition, described thus our opportunities and responsibilities. He said: "The United States stand at this moment at the summit of the world. I rejoice that this should be so. Let them act up to the level of their power and their responsibility, not for themselves but for others, for all men in all lands, and then a brighter day may dawn upon human history. * * * Our pilgrimage has brought us to a sublime moment in the history of the world. From the least to the greatest, all must strive to be worthy of these supreme opportunities. There is not an hour to be wasted; there is not a day to be lost."

I need not remind you of the glorious past and the magnificent promise of the private enterprise system. That it has produced for this country the highest standard of living known to the world is a matter of common knowledge. It is too little understood, however, that it has also made possible a degree of freedom for the individual which may be lost or at least endangered under almost any system of centralized control of economic life.

The system is not perfect. It was formerly accompanied by poverty for many, by insecurity, by exploitation, and, as I need not remind this audience, by a good many shady deals in securities. You need not look far back in our history to find out why we have these gentlemen from the SEC here.

Failings of Free Enterprise Overemphasized

In spite of the fact that our system has achieved so much for the majority, its failings have often been overemphasized. Such overemphasis has resulted in the most ambitious system of aid from both governmental and private sources for children, the old and infirm, for the unemployed and for the indigent that the world has ever known. The major failings of the system, to the extent that they can be corrected by legislation, have been corrected. Many believe that we have tried to do too much by legislation, and with this view I have some sympathy.

The attraction to the rest of the world of the American way of life despite its failings can be measured by the competitive test with which all businessmen are familiar. That is the test of the market. When there were no bars to immigration there was a constant flow of people from all parts of the world to these shores. No matter how dissatisfied we were and are, to those people America

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*An address by Mr. Whittemore prepared for delivery at the Annual Convention of the National Security Traders Association, Inc., Boston, Mass., Aug. 14, 1947.

Security Prices and Inflation

By IVAN WRIGHT and MARGOT HENN

Dr. Ivan Wright Margot Henn

Using experiences following World War I as a basis, authors analyze effects of inflation on security prices. Although results show common stocks in general are a better hedge against inflation than fixed-interest bonds, it is pointed out stock prices did not rise as rapidly as currencies depreciated. The importance of selectivity in acquiring common stocks is emphasized and authors conclude established companies with reserves of working capital and plants in sound physical condition are best able to withstand severe depreciation and a post-inflationary slump. Hold fire insurance stocks in post-inflationary crises constitute a good inflation hedge.

I.

The Effect of Inflation on Security Prices

During any economic crisis, whether large or small, the securities market acts as a sensitive barometer, recording all the whims of buyers and sellers alike. It is in times of rapid daily upheavals of gigantic proportions such as occur in an inflation period that the behavior of the stock market becomes particularly dramatic. All the cumulative forces of the money, wholesale commodity, and retail commodity markets come to bear upon the securities markets. Consequently, as inflation causes commodity prices to rise, so does it cause security prices to join the upward spiral.

There are four basic economic phenomena that prompt general price increases of this sort, and these are: (1) a surplus of demand over supply; (2) a larger supply of money; (3) a more rapid circulation of money; and (4) a fear of inconvertible paper money. As minor inflationary tactics gain momentum, all of these four factors are brought into play simultaneously each one aggravating the effects of the other. When money becomes too abundant, people begin to distrust it. Their common distrust and resultant flight into tangible goods causes a great scarcity of these products, a situation which, according to the law of supply and demand, irons itself out by way of higher prices. The scramble into tangibles also precipitates a more rapid circulation of the monetary medium, which has an effect identical to that of a further increase in the amount of money placed into circulation.

After the First World War, all of these forces took hold as inflation became the order of the day in France, Germany, Austria, and Italy. In France wholesale commodity prices increased eight-fold by the end of the inflation; in Italy they climbed to more than six times the 1913 level; while in Germany wholesale prices had, by December, 1922, reached the fantastic height of 147,500% as compared with 100 for 1913. Yet they continued to climb still vastly higher so that by the time the inflation had reached its peak in October, 1923, commodity prices stood at 1.5 trillion against 100 in 1913.

People of small means in these countries bought up commodities of all sorts in an effort to rid themselves of their money—past savings and current income alike. Any durable and storable commodity served the purpose. Competition on the part of buyers to obtain the few available goods created an even greater scarcity and in its wake drove prices ever higher as confidence in the prevailing currency dwindled. The sellers' market was such in France and Italy that commodity prices soared higher percentage-wise than did gold exchange rates of the paper currencies.

While some were purchasing actual physical goods, others of greater means, likewise fleeing from cash, sought to prevent their wealth from depreciating as much as money by purchasing the securities of enterprises engaged in the manufacture of tangible goods, or otherwise related to something tangible, as, for instance, the insurance of tangible property against losses. As may well be expected, securities followed the familiar pattern of increased prices as demand overtook supply. However, the securities market presents a more intricate problem, and it is particularly necessary to distinguish between securities representing debt and those representing equity. For the most part, stock prices rose while bond prices fell.

Bonds were at a disadvantage because of the sharp rise in interest rates accompanying continued government borrowing. Interest rates rose to as much as 10% in France and 40% in Germany. As a result, prewar bonds, carrying the low rates then prevalent, were sold at considerable discounts to make up for the discrepancy in the interest rates. Bonds suffered, too, from the likelihood of their being paid off in cheap money, thus sharply reducing the purchasing power of the principal when repaid to the creditor.

Stocks, on the other hand, presented none of these difficulties. Being shares of ownership, there was no danger of their being paid off in cheap money. Carrying no fixed interest rates based upon past conditions, there was no need for them to be sold at a discount. Indeed quite the opposite was true. As inflation progressed in the various countries, stock yields increased in terms of paper currency. Prices of finished products rose, and in many instances higher profits were realized on paper, so that increased dividends were paid out.

Nevertheless, stock prices did not rise as rapidly as the currencies depreciated, nor as rapidly as wholesale prices responded to the monetary inflation. They persistently lagged behind, and, upon the revaluation of the various currencies, never did reach their full proportionate measure of price increases. At the time of currency stabilization French stock prices had, on an average, increased to only 250% (1926) of the 1913 prewar level as compared with 800% for wholesale prices; German stocks (1923) on an average fared even worse, inasmuch as they only reached approximately one-fifth as high percentagewise, in terms of the 1913 level, as did wholesale commodity prices. To put it differently, in terms of the cost of living at stabilization, stock prices in France dropped to about 45% (1926) and in Germany to about 35% (1923), with the 1914 average taken as 100.

After the franc was revalued in 1926 at 20% of the prewar unit, the French stock market continued its upward jaunt. The experience of the inflation did not deter the country from riding the crest of a wave of increased production and speculative fever.

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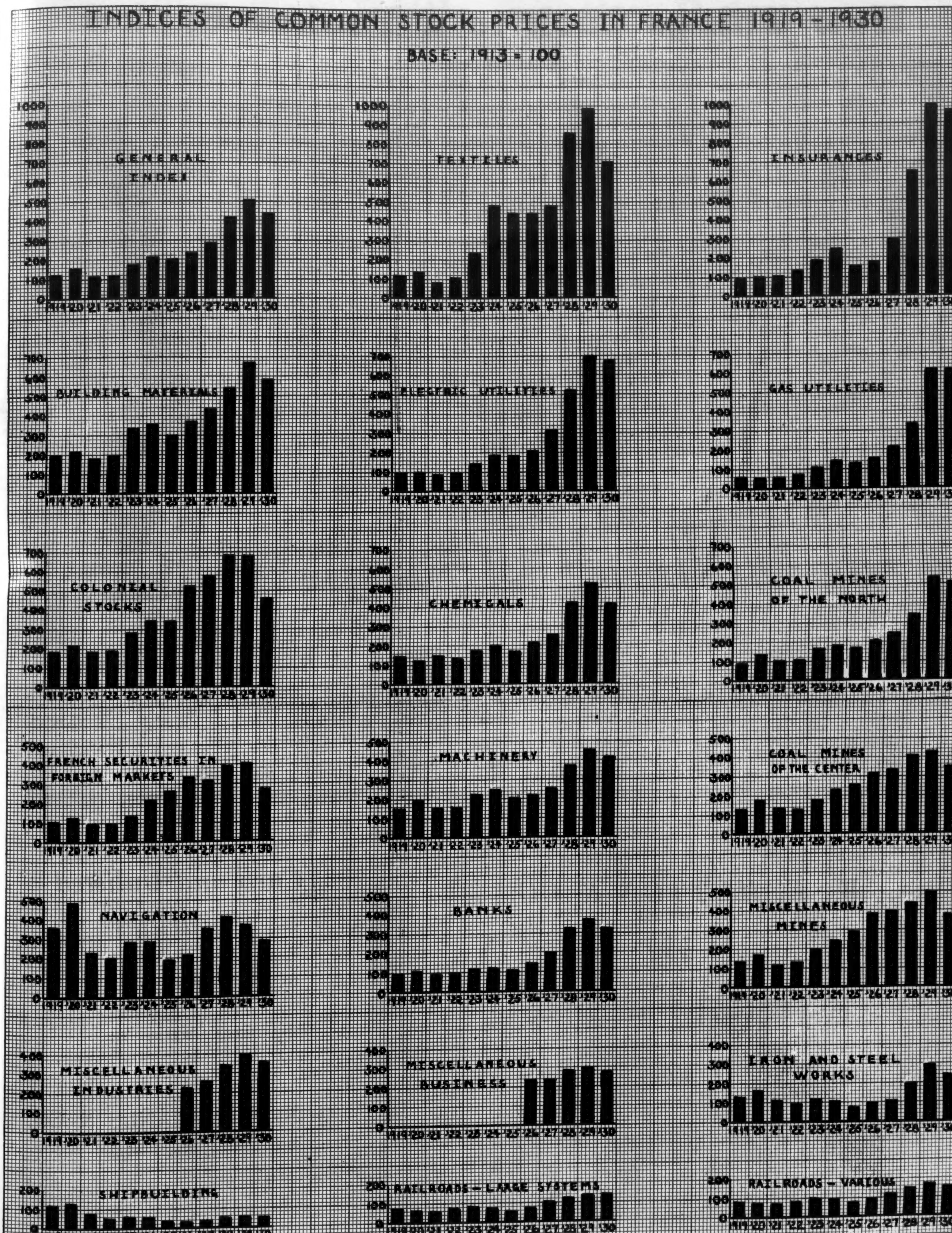

INDICES OF COMMON STOCK PRICES IN FRANCE 1919-1930
BASE: 1913 = 100
GENERAL INDEX
TEXTILES
INSURANCES
BUILDING MATERIALS
ELECTRIC UTILITIES
GAS UTILITIES
COLONIAL STOCKS
CHEMICALS
COAL MINES OF THE NORTH
FRENCH SECURITIES IN FOREIGN MARKETS
MACHINERY
COAL MINES OF THE CENTER
NAVIGATION
BANKS
MISCELLANEOUS MINES
MISCELLANEOUS INDUSTRIES
MISCELLANEOUS BUSINESS
IRON AND STEEL WORKS
SHIPBUILDING
RAILROADS - LARGE SYSTEMS
RAILROADS - VARIOUS

How Things Look to a Yankee Banker

By ROBERT CUTLER*
President, Old Colony Trust Co., Boston

Boston banker, urging American people be told the facts, points out domestic and world conditions are not very sound. Says Great Britain no longer occupies position as economic and financial stabilizer and deplores actions of Soviet officials. Favors spending large sums in telling Russian people "real facts of democratic life" and holds domestic problems ahead are: (1) decay of family life; (2) loss of America's urge to produce more, and (3) legal reduction in working hours. Warns we may have hard times to take up the slack.

I am supposed to talk on how things look to a Yankee banker. Well, I am a Yankee all right. There was a man called Robert Cutler who came over from England in 1636 and landed in Hingham. It killed him. He died that year. He couldn't take it! I don't know whether I am a banker or not. If trying to look after a billion and a quarter of funds in these difficult times qualifies you for a banker, I guess during the last 19 months I have been one. But, I am willing that you should suspend your judgment until I have finished these few remarks. . . .

Robert Cutler

About being a prophet, I am frankly filled with the gravest possible concern. I think the American people are mature enough after what we have been through—two wars and 12 years of New Deal—to have everything out in the open, have all of the facts disclosed, and to stop talking about new economic patterns and "there will never be any more economic depressions," and let us face the facts.

After all, when a boy gets to be 14 they begin telling him the facts. I think the American people ought to be told them. In his remarkable address at Harvard Commencement, that was the thought behind General Marshall's remarks. To me, he is the greatest man I ever had anything to do with. It was my privilege to work closely with him in the last six months I was in the Pentagon. I think he has expressed the facts. The hard things, the difficult things, they should be drummed constantly into the minds of the American people. By nature they are optimistic and they always see the good in things.

Now, you will be inquiring how long I have been a Jeremiah. Is this just because of this sling I am wearing? No, I have been feeling this way for some time. As a matter of fact, a year ago this July I went out and visited some friends in Des Moines, and if you have never been in Des Moines, I can recommend a highway to you strongly.

I have discovered among other things the famous yellow corn for which Iowa is noted, and can tell you that it does not come entirely from field-bearing grain. I suppose they use water for some purposes in Iowa, but I didn't see it! Well, on the third day of this trip, my friend, who runs the Des Moines "Register and Tribune" and with whom I was staying, insisted on my being interviewed. They had never seen a man from Harvard and the Old Colony out there before. So, I was interviewed at 10:30 in the morning, which, as you know, is a very disadvantageous time.

Well, I told the reporter that I thought the whole world had been on a hell of a drunk for six years, and that we were bound to have an awful hangover, and if somebody knew how you could indulge in such a process for six years and not feel bad, I would be very glad to meet them in the back room and pay them handsomely for their recipe.

The Des Moines "Register and Tribune" came out with the interview that afternoon with this revealing headline: "Banker sees slump following spree."

Well, it hasn't come yet, has it? There are 60 million presently employed; the honest dream comes into reality. The Department of Labor tells us in a very recent bulletin, which seems to have been overlooked by a great many people, that factory workers' real purchasing power in May was from 12% to 27%, depending on exemptions and dependents, higher than in 1939, even after adjusting for the vertical increase in the cost of living. Of course, I am not referring to members of your profession or to the unorganized workers. This refers to the factory worker.

There are other good things. Corporate profits—aren't they something terrific? All of our beneficiaries in the trust companies getting these fancy ideas of what we ought to be able to do for them. I just dread to think of the future.

In the first half year, our corporate profits, after taxes, were running at an annual rate of $17½ billions, an increase since 1946 of almost $7 billions. And the stockholders are getting a lot more money. Well, that makes everybody feel pretty good. If you have more money, you can go out and spend it and trade in securities, not on a margin, but you can trade.

And, of course, President Truman has signed a bill permitting the GI's to cash their bonds, and my experts tell me that that is a good sign. I had personally thought it was one of the most foolish things that could be done, but they say it is going to make the wheels spin faster.

And, there are other good signs with which you are all familiar, and which I am not going to bore you with. Isn't it just dandy to have everything going so well?

Well, my friends come to me and they talk to me about that speech I made in Des Moines, and they say, "How about it? How about that slump that you forecast; that inflation that you were talking about?" Well, I suppose it is Yankee and being obstinate in part. All prophets feel sure they are right until they are killed like Sandra.

World Not Very Sound

But, if you will look beneath the frosting, I really think the world would look a little Jerry-built and not very sound. A great Englishman, Lord Shaftsbury, thought a hundred years ago that England was going to hell right then and there. He only missed it by a hundred years.

It is natural to be thinking of England these days. The Rock of Gibraltar; the stabilizer of the world; through all of our concious lives, certainly. How different it is from the rich and profuse collection of wealth and resources which we have here in the United States.

* * *

I am not going to dwell about all of the things that disturb an old man with neuritis now. I am going to mention only four of them to you because I would like to have you worry about these things with me and go home to your towns and make other people worry about them. Let us not live in a dream world.

Great Britain No Longer a Stabilizer

Naturally, the first worry is the disappearance of Great Britain as the stabilizer of the world; the Rock of Gibraltar. I don't think there can be any real doubt in thoughtful minds that the leadership which England has exerted through some centuries is about to pass. There will be remembered incalculable things England has done for the world and for civilization. She is the mother of democracy as we know it. But, we remember things about Rome and Greece too, although they have long since vanished into dust.

We see the United States loan—credit—being used up at a much greater rate of rapidity than anticipated. We see Viscount Montgomery coming back to preside over the reduction of British arms. The loss of India is an accomplished fact. The Marquess of Linlithgow, who used to be Viceroy, came to lunch at the Trust Company a couple of months ago. He is now Chairman of one of the big banks in England, Midlands, and being a bright young man I asked him a lot of questions. Questions you are not supposed to ask a Marquess at lunch, I suppose. He can see nothing but bloody civil war in India when the British are finally withdrawn from there.

The status of British Consuls, which hitherto have been considered by trust companies as good as "G-bonds," certainly gives us pause. I don't know what they are selling at today, but I assume they are around 82. And the Attlee statement seems to be taking England in peacetime down the road to serfdom and away from the road of freedom.

Somebody has got to step in and take England's place. There is an enormous vacuum that will be existing there. It is very hard to think that the world and its economy will be the same without the assistance of Great Britain. I don't mean to say that by any manner of means the British were just doing it for love. They were damn smart people. But, they are not going to do it much longer.

Russia's Attitude

My second concern is the attitude of the Russian Government, and I would particularly like to

(Continued on page 32)

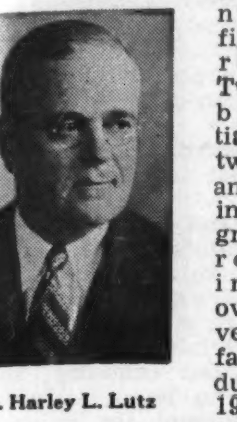
*Stenographic report of an address by Mr. Cutler at the Annual Convention of the National Security Traders Association, Boston, Mass., Aug. 11, 1947.

The Tax Battle on the Potomac

By HARLEY L. LUTZ
Professor of Public Finance Emeritus, Princeton University

Dr. Lutz deplores veto of Congressional tax bill, though admitting measure did not remedy defects of tax system. Says complete recasting of income tax rates is needed, so as to preserve incentives to work and save and to provide additional capital investment for expanding economy. Holds time to reduce taxes is before a depression sets in, and denies lower taxes are inflationary and will prevent debt reduction.

Now that the fighting is over and the generals have departed, it may be worth while to review some aspects of a recent battle of the Potomac, namely, the fight for tax reduction. Twice enacted by substantial majorities, twice vetoed, and twice failing in Congress by narrow margins in votes to override the veto, the ill-fated tax reduction bill of 1947 has become a symbol of the thwarting of strong popular demand by the executive prerogative of the veto.



Dr. Harley L. Lutz

Let us dismiss at once all question of the President's constitutional right to veto this bill, once or more times. The constitution does not exclude revenue measures from the veto power. Whether it was wise to do so the first time, or to repeat the performance a month later, is an entirely different matter.

Presidential opposition to the tax bill was summed up in the sentence—"The wrong kind of tax reduction at the wrong time." The veto messages give some indication of the thought processes which led to this conclusion. They therefore afford a measure of the President's grasp of fiscal matters, and for this reason warrant some exploration.

If the condemnation of the bill as providing the wrong kind of tax reduction meant that it was not a perfect and final answer to the question of individual income tax relief, we can agree at once that it was the wrong kind. But it was never offered as the final and perfect solution of this problem. Quite possibly, it was not the best method that could have been devised, even as a first step toward the final solution. The weakness of the percentage reduction method is that it leaves intact the existing scale of rates by which individual income taxes are to be computed. It tends, therefore, to create a presumption that this existing scale is satisfactory, and the absence of emphasis, during the discussion, upon the fundamental inequity of the tax rates themselves may have given some support to this impression.

Complete Recasting of Tax Rates Needed

The fact is that the job of individual income tax revision cannot be satisfactorily finished without a complete and drastic recasting of the tax rate scale. This is the basic evil in the income tax. The present rates are those that were imposed during the peak of the war effort, modified only slightly by the 1945 Revenue Act and subject to the further deduction of 5% across the board in the tax as computed. The war tax rates were built upon a foundation rate structure that was developed during the 1930's as part of the program, then so popular, of equalizing wealth and incomes through an abuse of the taxing power. The tax rates of the 1936 Act were as high as the highest rates imposed during the first World War.

Even after allowing for the minor adjustments made by the 1945 Act the current-income tax rates make a better case against themselves than can be made in any other way. The combined normal and surtax rates begin to exceed 50%, after the 5% deduction, at the taxable income level of $18,000, which means that as to any additional income, the recipient is working more than half of the time for the government. The effective rate of tax, which means the relation of the tax to total net income, is 48.22% at a net income of $50,000, in the case of a married person with two dependents. Shortly beyond that income level, such a person is actually giving up in taxes half, or more than half, of his entire income.

It is impossible for any fair-minded person to contend seriously that such tax rates are not bad for the whole economy. Granted that the tax load is too heavy upon the small and moderate incomes. It is too often overlooked that it is now too heavy, also, upon the middle and large incomes.

The reason for this conclusion, particularly with respect to the higher incomes, is not that those who receive such incomes do not have enough, after taxes, for their own support. Too often the tax reduction argument has been staged on the low plane of what is left to the various taxpayers for living expenses. The real reasons are quite different, and it must be admitted that if the maintenance of living standards were the only ground, there would be little case for reducing taxes, now or at any time.

Reasons For Rate Reductions

The real reasons for tax reduction throughout the income scale are these:

First, we must preserve the economic incentives to work, to save and invest, to assume the responsibilities of management, and the risks of enterprise. Second, we must make available, through tax reduction, a larger volume of individual income which can be saved and invested in order to expand the nation's capital. The effect of taxation upon the willingness to work, and upon the ability to save, is experienced by persons with small as well as with large incomes. The married person with two dependents who has a net income of $3,000, must work more than three weeks in each year just to pay the small tax imposed upon his income by the 1945 tax rates. It is obvious that the restrictive effect of the tax load increases progressively with the growth of income, since the tax rates themselves rise in sharp progression. The present writer has recently commented upon this point elsewhere as follows:[1]

"Moreover, income tax reduction through the middle and upper income ranges becomes an important safeguard for the smaller incomes. The great bulk of the workers and other income recipients cannot create their own job opportunities. They are dependent upon decisions made and actions taken by others. In so far as the tax burden impairs the incentives to make these decisions and take the necessary steps to provide jobs, the brunt will be borne by thousands, even millions of persons with small incomes. Taxes are too high, everywhere, but it would be a very short-sighted policy, affording only a very short-lived advantage, to restrict the benefits of any tax reduction to the low income groups."

Fallacy of Computing Tax Reductions in Dollars

Yet, the principal reason which the President gave for regarding the 1947 tax bill as the wrong kind was that it gave too much tax reduction at the top of the income scale and too little at the bottom. The bill gave much more relatively at the bottom than at the top, for it provided a 30% reduction of tax under that due at 1945 rates for the smallest incomes, and only a 10½% reduction for the largest incomes. In the first veto message occurs the following:

"H.R. 1 fails to give relief where it is needed most. Under H.R. 1, tax savings to the average family with an income of $2,500 would be less than $30, while taxes on an income of $50,000 would be reduced by nearly $5,000, and on an income of $500,000 by nearly $60,000.

"In so far as 'take-home' pay is concerned under H.R. 1, the family earning $2,500 would receive an increase of only 1.2%; the family with an income of $50,000 would receive an increase of 18.6%; and the family with an income of $500,000 would receive an increase of 62.3%."

These extracts reveal the severe distortion that was necessary in the effort to make a case. At 1945 rates the family with a net income of $2,500 would pay $95 tax, while under H.R. 1 it would have paid $67, which is a 30% reduction. The family with a net income of $50,000 would pay $24,111 at 1945 rates, and the decrease of $4,822 represents a 20% reduction, and so on. the fact that a larger number of dollars of reduction would be taken from the tax on the larger income than from the tax on the smaller income has nothing whatever to do with the case.

In the second paragraph of the above extract, use is made of a statistical device which, though mathematically correct, distorts the result. The percentage increases quoted are the increases in net income after present tax which would result from the operation of H.R. 1. Since the present tax reduces so substantially the net income remaining after the tax, any increase in this income after tax becomes a large percentage of the base. For example, assuming that a taxpayer had only one dollar left after present tax, and a tax revision left him with two dollars, his take-home pay would have been increased 100% by the tax reduction.

The President has made it clear that his preference, in a tax reduction bill which he would consider good and acceptable, would be for a concentration of the entire advantage in the low income groups. The portion of the first veto message quoted above says in effect, that this is where the relief is needed most. Actually, such persons really need tax relief throughout the income range, for their jobs and their entire income are dependent upon such a course.

The second line of opposition indicated in the veto messages is (Continued on page 67)

[1] H. L. Lutz, "The High Cost of Living," *The Yale Review*, Summer, 1947, pp. 582, 583.

A Call for Balanced Economic Thinking

By HAROLD B. DORSEY

President, Argus Research Corporation

Investment analyst, holding there are both favorable and unfavorable factors in present economic situation, lists as favorable: (1) urgent and unsatisfied demand for both producers' and consumers' goods; (2) no indication that producing facilities are over-expanded; (3) high earning power of corporations; and (4) low stock prices in relation to price-earnings ratios. As unfavorable factors cites: (1) uncertainties of international situation; (2) distortion of price-wage structure; (3) prospects of reduced exports; and (4) lower rate of new capital expenditure. Urges avoiding optimistic or pessimistic extremes.

It is unfortunate that the thinking in this country, and especially in the security business, must tend so persistently toward the extremes. We are always anticipating a boom or a bust, or a bull market or a bear market. Possibly it reflects a subconscious desire to be spectacular. As a matter of fact, opinions on economic and financial conditions are seldom unanimously favorable or unanimously unfavorable and a great part of the time they are not far out of balance.

Harold B. Dorsey

The same tendency toward extremes is probably responsible for over-emphasis on one individual phase of the broad problem without giving sufficient consideration to the many other components. At the moment, if a person thinks he should be bearish, he is exaggerating the importance of exports to our whole economic structure; if he thinks he should be bullish, he is emphasizing the inflation potentialities. Both of these are factors, but there are many others that are of equal importance, viz.: the position of our domestic business structure as a whole and in some of its important details, the commodity price structure, money and credit, profit margins, the international situation and the level of security prices. All of these should be considered before formulating investment policies.

Domestic Business Position

Any consideration of the domestic business position must recognize as a background the presence of a very unusual condition—as a matter of fact, so unusual that it is seldom set into its proper place. We are in one of those very rare periods (with the exception of war periods) when domestic demand plus export demand is in excess of our productive capacity. That the condition exists is indicated by the fact that our entire practical labor supply is occupied and we still have shortages of steel sheets, automobiles, homes, etc.

The recognition of this condition is important (1) because the excess of demand over supply represents a cushion against a decline in any one or two of the demand components, (2) because the points where demand is in greatest excess are the points which may subsequently realize the greatest adjustment, and (3) because a major economic cycle practically never matures until the productive capacity has been expanded beyond the point of peak demands. It is against this background that we should examine some of the various important components of our domestic business structure.

Few people will argue with the premise that the outlook for the automobile industry calls for a high level of activity for at least 12 months to come and probably longer. Significantly enough, it could operate at higher than recent rates *if it could get the materials.* There is to be observed in this industry, and in others, a potential demand that could offset declines in demand that may materialize from reduced exports or from some other industry that might have over-produced. These observations would, of course, also cover many of those concerns that supply the automobile manufacturers, as well as the manufacturers themselves.

Practically the same thing could be said about the railroad equipment industry. It is well established that the railroads are in such dire need of equipment that the economy is hurt by the irregular flow of materials and supplies. Capital equipment requirements of the oil industry have probably never been as large or as urgent, and manufacturers of crude oil producing, refining, transportation and marketing equipment should operate in a seller's market for quite some time to come.

The farm equipment industry still has a long way to go before it has satisfied the domestic demand that has been built up to huge proportions by high farm income, high farm savings and high farm labor costs coming on top of a curtailed normal supply of equipment during the war years. Labor-cost pressure, deferred demand and new models with improved efficiency, combine to assure to the manufacturers of office equipment a seller's market for quite some months ahead.

It is a little difficult to generalize on the electrical equipment industry, but one must start the subject by observing the huge capital equipment requirements of the electric power and communication industries. In view of the fact that well over one-half of the business of the two largest electrical equipment manufacturers is in heavy apparatus, we must not let our perspectives be distorted by conversations about an over-supply of table model radios. Furthermore, observations that some of the lighter appliances are beginning to pass from a seller's to a buyer's market does not necessarily suggest that the demand for these items is going to collapse. As a matter of fact, a well-balanced inventory (which would provide the buyer with a greater selection) and the merchandising effort that is a natural accompaniment of buyers' markets should stimulate sales.

The demand outlook for miscellaneous industrial machinery is very difficult to diagnose. Since VJ-Day a great deal of capital has been spent for this type of equipment and it is almost impossible to measure the time when the deferred demands built up during the war will have been satisfied. the first place, the problem is not that simple. The machine tool exhibit opening in Chicago soon is expected to introduce many new technological developments that should have great appeal for the manufacturer who is harassed with constantly rising labor costs. However, just what will be forthcoming in the way of new orders cannot be forecast. Furthermore, due consideration must be given to the fact that this type of machinery has been one of the important export items recently. Studies of this particular segment of the whole economy come to an indecisive conclusion but the fact that industry as a whole is still expanding productive capacity suggests that industrial machinery products should hold at a fair level at least.

Contract awards in the important construction industry have been in a generally declining trend (adjusted for seasonal) for the past six to nine months, and in so far as this trend is probably a reflection of resistance to high costs, it cannot be looked upon as favorable. The present level of construction activity is well over 1941, but in view of the reaction to date against the high costs of construction, some allowance should be made for a decline in the current rate of activity over the next 6 to 12 months. However, nothing like a collapse is indicated and activity in the group should still be sustained well above anything witnessed in the '30s, again reflecting the fact that industrial expansion has not been completed and the supply of homes is still insufficient.

We have been talking about the industries that are really basic in our economy, the industries that create a demand for raw materials and which translate sterile savings and new borrowings into active purchasing power. In so far as it is difficult to see a serious decline in the total of this broad segment of the economy, there should tend to be a fairly well sustained demand for industrial raw materials such as steel, nonferrous metals, heavy chemicals, etc.

A fairly well sustained level of activity in these lines that create basic purchasing power may combine with individual savings, soldiers' bonus payments and the elimination of credit restrictions in November, to hold retail and service industries at a pretty good level.

One does not have to be a skilled economist to make the above observations on our important key industries; there is nothing very mysterious about the matter in spite of the fact that academic discussions of broad generalities often overlook these important details. Consideration should be given to some of those broad fundamental conditions but only as one part of the whole picture.

Practically every one is conscious of the fact that our economy at its present high level of activity is receiving the benefits of certain nonrecurring factors. It is to be doubted that capital expenditures can continue indefinitely to contribute so extensively to the economic stream as has been the case in the past 12 months. It is perfectly obvious that this important item is reflecting the demands that piled up during the war and some time these unusual demands will be satisfied. But even after they drop down to a lower level, it seems most probable that the level that

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Financing Public Sanitation Projects

By REID W. DIGGES*
General Manager, Hampton Roads Sanitary District Commission
President, Virginia Industrial Wastes and Sewage Commission

Sanitation expert describes pressing need for prevention of water pollution and points out health menace and destruction of property values resulting from it. Cites creation of Hampton Roads Sanitary District Commission as instance of providing sound sewage and water system through issue of revenue bonds. Gives plan of Federal aid in sanitary projects and concludes sound revenue bonds are as good as general obligations with right of taxation.

I would like to say that it is a great pleasure for me to be here and I appreciate your invitation. I have spoken before many gatherings of different professions but mostly on technical subjects, and I want to first ease your mind and assure you that I am not so technical-minded today. The profession that I am in is rather peculiar, but a very necessary adjunct to our high - pressured cities and towns.

Reid W. Digges

There are some professions that are a lot of fun, like professional baseball and football players. There are others that are extremely grave.

However, those of us in our line of work are charged specifically with the duty of purifying the waters of the country. The condition of all our natural waters is bad. Every year *five billion tons* of our soil flow into the streams and rivers and is lost forever. The major portion of this comes from erosion as a result of unscientific farming and the cutting away of timber reserves without adequate replanting. Some is the result of hydraulic placer mining for metals and coal. However, a goodly portion of our stream pollution and consequent destruction of fisheries and wild life is the result of the dumping of raw sewage from cities, and industrial wastes from paper, pulp, textiles, and chemical industries. It has been stated that more soil has been lost and more natural resources destroyed in the last two generations than in all the period prior to that time from the beginning of civilization. If this practice is allowed to continue for another generation, we will then become in fact a "have-not" nation.

More than 3,000 American cities and towns inhabited by approximately 30,000,000 people discharge a daily volume of 2½ billion gallons of raw sewage into waterways. Another 3,000 communities with approximately 22,000,000 inhabitants dump their sewage into the nearest flowing stream with only a slight attempt at treatment that leaves the sewage about 65% disease-laden. This pollution is wiping out water-front property values, corroding dams and bridges, obliterating bathing and resort areas, and progressively destroying the shell-fish industries.

Recently I was requested to look in on several cities in the deep South, to wit: Palm Beach, West Palm Beach, Lake Worth, Miami and Tampa — playground spots of our great Eastern wealth —and the condition of the adjacent waters was almost in a state of complete deterioration from the effects of pollution. These areas are still relying solely on the antiquated methods of dumping raw sewage overboard into the nearest creek or river. There has been agitation raised by the local and state health authorities, but in most cases politics and jealousy, between the adjacent communities have forestalled any progressive or comprehensive program for the elimination of pollution.

Elimination of Pollution

Pollution is a dirty subject, and only half of the job has been attended to. Most of you live in homes that have the very latest and best bathroom fixtures. But I venture that few of you realize that after you flush your toilet, the body wastes are allowed to flow untreated, or half treated, into flowing streams or harbors. Sewage-polluted waters are the same as garbage-littered backyards. In sparsely settled areas and on farms there is no problem, but this country is no longer a rural nation and has become industrialized to a degree undreamed of as a result of mechanization and mass production. The business of farming has become industrialized to an extent that hard labor is unknown except in backwood areas. One man today with farm machinery can do the work that 20 men did yesterday. The other 19 men and their families have moved to the cities and towns. This not only creates housing problems but it calls for tremendous public undertakings for new water supplies, new roads, new bridges, and in most cases a sewage disposal system heretofore lacking. Most of the cities in the United States whose industries were used in the great war effort for the production of ships, tanks, and guns, had their normal populations almost doubled and many of these cities are retaining these people. They are not going back to the farms and the saw mills because machinery has taken their places. Instead, they are finding gainful employment at much higher wage rates in new surroundings. This creates problems for the directors of public works—and they're big problems —big business—big leagues. The cities themselves overrun their former boundaries. During the war emergency cities expanded so that it is now impossible to tell which was once a city street and which was once a country road.

Also because of the lack of strategic materials, such as cast iron, motors and pumps, communities were unable to secure materials with which to hook up these new developments with existing sewage systems. As a result, methods were employed for sewage disposal that would never have gained the approval of the health authorities even in the most dire circumstances. Septic tanks were used with or without drain fields, and where the ground water level was so high that it was impossible for the effluent to drain through the ground. In other instances, emergency outfalls were built through which raw sewage was dumped overboard into the nearest flowing water.

Hampton Roads Sanitation Commission

This you may say is the background history for the formation of the Hampton Roads Sanitation Commission. Agitation started some 20 years ago but the program for the Commission actually started as a war measure. It was like many other programs, particularly in the South, that started as a war job and is being completed as a peacetime necessity. We Southerners who used to have just a good idea now have the money to back it up.

As I outlined above, the populations of cities have overflowed into the adjacent counties. Unless there is a cooperative effort between the counties and cities and new communities that have sprung up, no new public improvements are possible. Too many times this cooperative effort has failed because of ancient rivalries existing between them. Each in turn is so jealous of its prerogatives that cooperation is difficult if not impossible unless the State takes a hand. A *district*, therefore, *may* be the only answer. Then there can be one administrative body with members chosen from both city and county to do a specific job. It will not be loaded with other governmental responsibilities such as police duty, the maintenance of streets, the supplying

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*An address by Mr. Digges at the Convention of the National Security Traders Association, Inc., Boston, Mass., Aug. 11, 1947.

What's Ahead for Utilities?

By A. M. SAKOLSKI

Dr. Sakolski reviews problems of rates, new construction costs, and dividend position of utilities in years immediately ahead. Sees need of a definite policy regarding Federal power projects and investment situation favorable for expansion of utilities services under reasonable rates.

It is undeniable that public utilities have come out of the war period with fewer problems of reconversion and adjustment than any other lines of business, but this does not mean that all is smooth sailing with them and there are no serious problems ahead.

A. M. Sakolski

Though, unlike the situation after World War I, the utilities as a whole are not confronted both with high interest rates for capital and a heavy need for additional cash funds, they must contend with rising costs of labor and materials and rigid systems of rates and charges. To this may be added threats of increased competition of government-owned or subsidized utilities projects. As yet, there has been no general demand for increased utility rates as in the case of the railroads. As is quite evident from the discussions at the recent convention of the Edison Electric Institute, higher rates on a widespread scale are not expected in view of the maintained scale of earnings on capital brought about during the war by expanding output, better load factor, and other operating economies that have offset higher wages and materials costs.

Yet, higher wage payments have affected adversely net earnings of some utilities, particularly the telephone and telegraph industry and transportation lines, and it is to be expected that the effects of wage increases as well as higher fuel and construction costs will be more seriously felt in the years to come when technical improvements slow down or should a serious business recession come about. Moreover, high construction costs and heavily increased charges for new equipment will be a serious handicap should modernization and expansion of output be required. In effect, this situation will go far to offset the advantages reaped from lower interest rates which have prevailed generally in the last decade.

Where Rate Increases Are Required

During the coming months one may look for requests for rate increases by gas companies, communication and transportation concerns. An example of this is the announcement made a month ago by Ralph H. Tapscott, President of the Consolidated Edison Company of New York, that on top of an application pending before the New York Public Service Commission for an increase in electric rates, the company will apply for higher gas rates to offset rising costs of labor, fuel and materials. In the meantime, the Brooklyn Union Gas Co. has been granted increased rates by the N. Y. Public Service Commission. The telephone and telegraph companies have either received authority to increase rates or, in many cases, are preparing to make such applications. The recent nationwide telephone strike was, in a way, a victory for the Bell System, but it was a costly affair, as all strikes generally are, and, even with the workers' acceptance of lower wage increases than demanded, the wage boosts are sufficient to cut heavily into net earnings, unless offset by higher charges. *And, it should be borne in mind, higher charges, if continued, are bound to bring about reduced demand for services.*

It is quite probable that the general trend toward lower utilities rates, which has marked the last decade, has come to a halt. At the recent convention of the Edison Electrical Institute, it was manifest that future technological improvements and expanding service will not fully offset higher costs of materials and wages. Electric utilities, alone, last year had 15.6% increase in their labor bill. The increased bill for coal and oil was greater. It rose from $374,851,000 to $416,340,000, an advance of 11%. Higher costs for fuel were counterbalanced somewhat by further improvement in operating efficiency; fuel consumption for the industry reaching a new low of 1.29 pounds of coal for each kilowatt-hour of energy generated.

Offsetting the rise in fuel and labor costs was the reduction of 7% in the companies' tax bill, due mainly to elimination of the excess profits tax. There was also a 25% reduction in fixed charges because of lower interest rates. As a result of relief from these fixed burdens, most of the $117,000,000 increase in revenues went into available earnings for stockholders as net income. But, these savings cannot be counted on to increase dividends in future.

Indeed the dividend position of utilities will become a matter of increasing importance, since a large part of new capital investment must come from stock issues. In view of market conditions, offerings of public utility shares recently by underwriting firms has been on a small scale. The investing public which suffered losses on purchases made during the large-scale stock flotations of last year has been reluctant to make new commitments although yields available on new offerings have increased substantially and prices, based on earnings, are considerably lower.

As pointed out by the Edison Electric Institute . . . "While gross revenues (of electric power companies) have risen to new high records, and the common stockholder, as represented by common dividends and surplus, has improved his income largely at the expense of the bondholder and to some extent at the expense of the preferred stockholder) the investor as a whole is little better off than he was before the war. In spite of record-breaking revenues, the ratio of operating income to investment in plant has only risen from 5.6% in 1937 to 5.9% in 1946. The earnings of the bond holder have decreased by one quarter; the ultimate result of the 'cheap money' policy of government during recent years."

Maintaining Demand for Services

It is becoming increasingly manifest that public utility industries, as a whole, will have to take more aggressive action to increase or maintain public demands for their services. The whole philosophy of economical utility charges is based on continuous and complete disposal of capacity production. This will involve not only ordinary advertising and solicitation, but, in many cases it will mean fostering industrial localization of a variety of industrial plants, which serve as markets for services. Indeed, it may be predicted that an important factor influencing the relocation of many large-scale manufacturing companies will be the intensive advertising programs of the power companies. This has been one of the results of railroad development in America, and, as power resources become a larger factor in economical industrial production, there will undoubtedly be the same rivalry among power concerns for locating plants as among the railroads.

According to a recent survey, one of the largest such programs is that of the Cleveland Electric Illuminating Company. In that company's area alone, more than 170 industrial concerns have announced that they will spend $50,000 or more each, or an aggregate in excess of $210,000,000 in locating there. This section is engaged in automobile production, automobile and airplane parts manufacturing and metal and plastic production. It is estimated these companies will create 32,000 industrial jobs. The utility has a construction budget of $57,000,000 for the three years ending 1949. The new company facilities, which comprise two 90,000 kilowatt generators, are being installed to meet anticipated increased demand for industrial power. In the vicinity of Chicago, the Commonwealth Edison Co. and in the West, the Pacific Gas & Electric Co., together with other utilities in the South are pursuing a postwar industrial development program costing more than $50,000,000.

Regardless of other factors of industrial location, the utility companies are exerting vigorous efforts in terms of dollars and manpower to attract industry by offer of economical power facilities. "Customer prosperity," as

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Growing Responsibilities in Distribution

By DON FRANCISCO*
Vice-President, J. Walter Thompson Co.

Pointing out coming years will require race to sell things, advertising executive denies relative cost of distribution is increasing. Stresses growing importance of selling and advertising because of high production levels, increasing sales resistance and severe competition. Urges minimizing wastes, increasing marketing efficiency and giving lower prices to consumer.

We are now beginning to feel the weight of the load which has been placed on distribution by the wartime expansion of our productive capacity. This raises many questions.

Don Francisco

Can the machinery of distribution match the great accomplishments of the machinery of production? Are we doing enough about it now? Does distribution cost too much? Will it cost more? What are the long-range trends? Where do we stand today? What should be our objectives?

Last year, like the war years, was a race to make things. Next year, and the years that follow, will be a race to sell things. In many lines the race for sales is already on. The spotlight is on distribution.

This shift in emphasis represents no new trend. Through the years distribution has played an increasingly important role in our expanding economy. More and more of the consumer's dollar has been devoted to the expenses of distribution.

Before we review the facts, let's be sure we agree on what is included in the cost of distribution. Contrary to popular conception, distribution is something more than wholesaling and retailing. It is much more than selling.

The fact that it must absorb such inescapable costs as taxes and transportation is frequently overlooked.

Not long ago the Chamber of Commerce of the United States adopted this definition: "Distribution" is the term used in American business to embrace all the activities employed in finding customers for goods and services and in moving goods, both geographically and through the channels of trade. In other words, it includes warehousing, transportation, wholesale and retail marketing, advertising and a substantial part of research, engineering, accounting and financing.

Are Distribution Costs Too High?

But how do we judge whether or not distribution costs are too high? Too high in relation to what? What standards of measurement shall we use?

What is generally meant is that the percentage of the consumer's dollar that goes for distribution expense appears to be high in relation to the percentage that goes for the cost of production. In 1870 distribution costs amounted to only 25% of the consumer's dollar, production 75%. By 1930 distribution expenses had increased to 50%. In 1939 the 20th Century Fund brought out an exhaustive study of distribution. It found that 59% of the consumer's dollar went for distribution, and 41% went for the cost of production.

Does the fact that an increasingly large proportion of the consumer's dollar goes into distribution costs warrant the conclusion that they are too high, or that our system of distribution is inefficient?

Why Have Percentage Costs Gone Up?

Let us review the reasons why the share for distribution has increased.

Distribution costs amounted to little or nothing when each family produced practically everything it needed.

When production became centralized and division of labor was introduced, costs were reduced, or the quality of merchandise was improved, or both. But to make this possible the volume of production of each article had to be much greater than could be consumed by those who produced it.

So the producer set out to find more customers. He began to add distribution expenses in order to get sales over a larger area.

Gradually people produced at home a smaller share of the goods they consumed and they bought a larger share in the market places.

Producers had to bridge two new gaps, one between the place of production and the place of consumption, and the other between the time of production and the time of consumption. This meant added expenses for financing, transporting, warehousing, selling and advertising.

As new and better products were devised they needed to be introduced. People had to be told in some way that new things, or improved things, that filled long-felt needs were available. That called for advertising.

In a further effort to attract customers, new services were offered, such as credit, delivery, the return-goods privilege, convenience and wide selection.

For example, the cobbler who made shoes for those who called at his shop had almost no distribution expenses. But if he could sell 100 times as many shoes he could introduce machinery and make them for much less. But to do this he had to be prepared to shoulder additional expense for freight, dealer margins, sales promotion and advertising.

The change from hand labor to machine production resulted in a revolutionary reduction in production costs. At the same time there was necessarily a corresponding increase in distribution costs in order to achieve the necessary volume. Part of the savings of machine production was shifted to marketing expense. The size and importance of the distributing task had increased enormously.

The fact that the cobbler has passed out of the picture as a maker of shoes is evidence in itself that, in spite of the increased distribution costs of manufactured shoes, the total cost to the consumer is less for comparable quality.

It should be emphasized that the large shoes manufacturer selling in a wide market, had to do more than produce shoes for less than the cobbler. He had to manufacture shoes for enough less to pay his added distribution costs for financing, transporting, warehousing and selling. If he couldn't do that then the cobblers would keep the business. If he did do it then the fact that he had incurred additional expenses for distribution was unimportant either to him or to the public.

Thus it is apparent that the 59% which goes for distribution is partly responsible for the economies of mass production and therefore for keeping production expenses down to 41%. Without this great effort to increase the volume of sales our standard of living would be much lower, for many of the things we take for granted would not be available or would be priced beyond the reach of a large share of our citizens.

The all-important fact is that distribution costs should be considered as an integral part of total costs, and not dealt with separately.

The important figure is not the ratio between production and distribution costs, but the total which the consumer must pay. If the over-all cost is reduced by adding distribution expenses, then the net result is a gain for the community.

Percentage Figures Are Sometimes Misleading

Percentage figures do not reveal actual costs but only the ratio between the expenses of production and the expenses of distribution. The percentage cost of distribution may be rising while the actual unit cost of distribution and the total cost to the consumer may be declining.

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*An address by Mr. Francisco before the American Marketing Association.

NSTA Educational Committee Urges More Avenues of Public Relations

Report recommends change of name to Public Relations Committee. Recommends corporations be contacted to interest employees in opportunities of becoming stockholders. Cites experience of Cleveland Securities Traders Association, and asks help of local stock exchanges.

Morton A. Cayne, Chairman of the NSTA Educational Committee submitted to the Convention on Aug. 11 the report of his committee in which in addition to suggesting additional means of creating interest in the securities business, recommended that the name of the committee be changed to "the Public Relations Committee." The text of the report follows:


Morton A. Cayne

During the past year the Educational Committee has conducted a few inquiries and has made a few studies having as an objective either a program or a formula for a program that could be presented to the membership of the National Security Traders Association.

While a definite schedule has not been prepared, the Committee respectfully offers the following thoughts and recommendations:

It is recommended that the name of this Committee be changed from the Educational Committee to the Public Relations Committee. The efforts of the Group warrant the change of the Committee title.

During the past year inquiries were made with institutions of higher education. It was found that colleges are very interested in having the security business present its story. Lectures, illustrating the operations of the industry, the purpose of securities, the importance of our many Stock Exchanges and all other features of finance that contribute to the "American Way of Life" have been both cordially and warmly invited.

An identical reception was gained in our limited checking with business groups. Kiwanis Clubs, Rotary Clubs and the various Chambers of Commerce all manifest an interest in having the security business visit their meetings and present their industry.

The Committee believes that our industry has not taken full advantage of the several avenues of Public Relations. Throughout the nation there are hundreds of corporations, in whose securities we trade, who have spent millions of dollars in the preparation of sound films, slides and printed matter. These have been designed to sell the company and/or its product to either the trade or the public. The cooperation and willingness on the part of many of these corporations is fully astounding.

We have all seen statements of corporations that clearly indicated that a great deal of time, effort and dollars went into the preparation of the statement. This, beyond any question, reveals that corporations are anxious to have their stockholders know their company and its products. Certainly, the company employee is not forbidden to traffic in the security of his employer.

A few corporations make it a definite point to see that their employees are at least exposed to the opportunity of being a stockholder. Countless corporations have either overlooked this vital relationship or are waiting for a program to be set up for them. While it is not a rule and it does not always hold true, it nevertheless is interesting to note the excellent "management-labor" relations that do exist in the many corporations that have welcomed the employee as a stockholder.

Probably countless thousands of workers are not aware that their employers' securities are available to them and that a broker or a dealer would be happy to serve them. Strangely, many of these people were good bond buyers during the war—admitting that the government advertising program played no small part.

The value of a stronger relationship with both the corporation and the public has been demonstrated in Cleveland. Recently the local Stock Exchange conducted a few "trial balloon" meetings where sound films were shown. The meetings were reasonably well attended by security men and businessmen. Officers of the corporation were on hand to answer questions following the showing of the film.

A growing popularity is evident when meetings are again resumed in the fall of this year. It is possible that the future meetings will be a joint sponsorship of the Exchange and the Cleveland Traders affiliate, and that meetings will be held at least once a month presenting a corporation whose securities are available to the public.

Last Spring, the Cleveland Security Traders Association held a dinner meeting, departing from the usual program. Instead, an outstanding, nationally known speaker was retained and officers of the N. S. T. A. were invited together with a large part of financial and industrial Cleveland. The attendance was flattering. Subsequent press notices praised the innovation and the value of allowing the public to hear our business discussed.

The Commitee strongly urges and recommends that the N. S. T. A. and its affiliates seek a better understanding and help from the many Stock Exchanges and other security groups in the intelligent promotion of our business with the public. The success of our program is very dependent upon the entire industry. We might borrow a page from the book of the large metropolitan banking institution which treats the newsboy opening a savings account with the identical courtesies that are extended to the potential trust account.

For more than 14 years we have been deluged with laws and rules, volumes of mail describing every conceivable "do or don't" — a horrible sense of fear that we might unknowingly be in technical violation and yet — not one single step has been taken during this entire period to obtain an intelligent suggestion or idea as to "how to get an order."

With 28 affiliates located in virtually every important financial center in the nation, it should be the obligation and the duty of the N. S. T. A. to foster a program designed to secure the assistance of the entire industry in the thoughtful presentation of our business.

On behalf of the members of this Committee, whose wholehearted cooperation is deeply appreciated, it has been our pleasure to have served on this Committee and trust, that our activities will arouse profound thinking among our members and those who follow us as members of this Committee.

Respectfully submitted,
EDUCATIONAL COMMITTEE,
Morton A. Cayne, Chairman
Roy W. Jordan
Charles E. Livingstone
Charles Lob
Charles J. Rieger

Members of National Convention Comm. of The Boston Securities Traders Association

General Chairman: Joseph Gannon, May & Gannon, Inc.
Corporate Forum: Dayton P. Haigney, Dayton Haigney & Co., Inc.
Entertainment: Hubert N. Bernard, Jr., Schirmer, Atherton & Co.
Finance: John E. Sullivan, Jr., F. L. Putnam & Co., Inc.; Lloyd B. Waring, Kidder, Peabody & Co.
Golf: Fred J. Wright, F. J. Wright & Co.
Hotel: Anton E. Homsey, du Pont, Homsey Co.
Ladies: James B. Maguire, E. H. Rollins & Sons.
Municipal Forum: F. Brittain Kennedy, F. Brittain Kennedy & Co.
Printing: Herbert C. Smith, Blyth & Co., Inc.
Prizes: Alexander W. Moore, J. Arthur Warner & Co., Inc.
Publicity: John L. Shea, Jr., Shea & Co.
Reception: Ralph F. Carr, Ralph F. Carr & Co., Inc.
Registration: Robert H. Warren, Geyer & Co., Inc.
Transportation: Paul B. Monroe, Hunnewell & Co.

Sumner R. Wolley, Coffin & Burr, is President of the Boston Securities Traders Association.

What They Did at The Convention

(Continued from page 5)

was put on. This is a show indeed when done properly and the final unveiling looks something like a circular flower bed with the bright red lobsters in the center, golden, yellow corn circling just outside of the lobsters, gray clams and the brown stones. The menu consisted of clam juice, steamed clams with drawn butter, a broiled live lobster, plus half a spring chicken, deep dish apple pie with ice cream, coffee and beer. It was noticed after the meal a certain sleepiness crept over the crowd.

About 9:00 o'clock all hands shoved off in the boat for Boston.

Thursday morning there was a National Committee meeting and election of officers. In the afternoon a Corporate Forum was held. The speakers were Commissioner Hanrahan of the SEC and Laurence F. Whittemore, President of the Federal Reserve Bank of Boston. As Commissioner Hanrahan's speech is printed elsewhere in this Supplement to the "Chronicle" comment on it is hardly necessary except that most of the listeners thought it was a fair and cooperative speech. Mr. Whittemore's story of "What Is New England's Thrift?" is probably being retold throughout the United States this week. It, too, appears elsewhere herein.

The ladies on Thursday afternoon had luncheon on the Sheraton roof followed by a motor launch sightseeing trip around the beautiful Charles River Basin.

Thursday evening was, to be frank about it, a very hot night but all the brave Traders went ahead and had a cocktail party, a hearty steak dinner and a Dinner Dance. At the party golf prizes, motion picture prizes, etc., were awarded to the lucky winners. Special train left around 1:30 a.m.

The convention next year is to be held in November in Dallas, Texas. Jesse A. Sanders, Jr. of Dallas promises the boys a wonderful time.

Among those noted in the approximately 500 who attended the convention, were the following Past Presidents: Herb Blizzard, who has never missed a convention except during the war years when he was on military duty; J. Gentry Daggy, Arthur E. Farrell, Thomas Graham, Edward D. Jones, E. E. Parsons, Jr., Wm. Perry Brown, Joseph W. Sener, Willis M. Summers, Henry J. Arnold, and, of course, our present President, Vic Mosley. The "Chronicle" had two very able and energetic representatives. Hal E. Murphy must have covered the convention much better than this amateur and his photographer, Mr. Harding, took a picture of everything but the inside of his own camera.

All in all, the Bostons were very happy to have you and from reports we have heard, all of you who came enjoyed yourselves, which is just as it should be. The entire affair was a tremendous credit to Joseph Gannon and his charming wife, Betty, and to all of the members of the committees, who really worked hard to make this convention a success.

Woodland Golf Club
Aug. 12, 1947

Prizes Awarded at the N. S. T. A. Golf Tournament

1st Gross: Gus Levy, New York, Traveling Bag.

2nd Gross: Clarence Maender, St. Louis, Ice Bucket.

3rd Gross: J. B. Cornell, Dallas, one dozen Golf Balls.

4th Gross: R. A. Morton, New York, Wallet and Key Case.

5th Gross: Fred Wright, Boston, Bottle of Scotch.

1st Net: Sam Junger, New York, Traveling Bag.

2nd Net: Carl Stolle, New York, Golf Bag.

3rd Net: Roy Trevine, Pennsylvania, one dozen Golf Balls.

4th Net: E. F. Hormel, Boston, one dozen Golf Balls.

5th Net: Sumner Wolley, Boston, Bottle of Rye.

6th Net: Bill Burke, Boston, one-half dozen Golf Balls.

Highest Nine: Chas. Scheuer, Chicago, Leather Hoods.

Highest Eighteen—Tom O'Rourke, Pennsylvania, Pint Liquor.

Highest Score on Any Hole—M. E. Mooney, Pennsylvania, Pint Liquor.

Most Eights: F. J. Laird, Pennsylvania, one-half doz. Golf Balls.

City Prize—Won by New York City: Gus Levy, R. A. Morton, Sam Junger, P. S. Russell, total, 317; Boston, 335; Philadelphia, 340; Chicago, 402.

Blue List Municipal Prize: P. S. Russell, New York.

Guest Prize: Jim Lynch, Boston, one dozen Golf Balls.

(Continued on page 18)

NSTA Municipal Group Hits Tabling of Hinshaw Bill

In his report to the Convention of the NSTA at Boston on Aug. 11, Ludwell A. Strader, Chairman of the Municipal Committee, stressed the importance of having Congress pass the Hinshaw Bill, which would definitely free municipal bond trading from interference by the Securities and Exchange Commission. The text of the committee's report follows:—


Ludwell A. Strader

The past year with your Committee has been rather a tempestuous one; one filled with hopes and disappointments. Our main objective for the year was the passage of the Hinshaw Bill. This bill, as you know, was the outgrowth of the Boren Bill, which had such wonderful support from our last Committee and only went to death by virtue of adjournment of the 79th Congress. Your Committee's efforts were expended with government officials, Congressmen and other organizations with the idea of immediate passage of this all important bill, H. R. 1881. Unfortunately this bill was introduced at a very bad time, and with world affairs being in the forefront, this domestic issue was by-passed by the sponsor and by the House Interstate & Foreign Commerce Committee. Efforts to revive the bill during the session were made by members of the Committee with little avail as the Chairman of the Interstate & Foreign Commerce Committee tersely stated by letter to your Chairman that the Minute of the SEC did away with the necessity of further legislation on the subject. The Committee did not accept the ultimatum that the SEC Minute solved the problem, inasmuch as we considered this was only a temporary stay. The opinions of Commissions have been known to change from time to time and we could not accept this as being the final answer to our problem. The importance of this bill to the investment banking industry, states and municipalities, has never been questioned and its further processing is most certainly advocated. It is strongly suggested that continued effort be applied at the outset of the new Congress and all members of the Committee continue to follow and work towards ultimate passage.

We appreciate the guidance given the Committee by Mr. David M. Wood, Attorney of New York. It is the hope that the future Committees will work closely with this gentleman, who represents many states and political subdivisions which are interested in the passage of this legislation.

Your Committee has been checking the question of uniformity of bank examinations with relationship to municipal and revenue bonds. Many instances have come to our attention where one agency will approve an issue of bonds for bank quality and immediately after another examining body will disapprove. This disparity of ideas and rulings has caused many dealers considerable trouble and is not too good for customer relationships. Our plan is to attempt to get some form of uniform practice in examination and we are on record with the authorities at this time.

Our thanks go to the President of NSTA, Mr. Mosley, for his cooperation with the municipal branch of the National, to the Blue List, the "Dealers Digest," "Financial Chronicle" and to the Municipal Committee of the Boston Security Traders' Association.

Your Chairman has enjoyed working with the Municipal Committee and representatives and their cooperation during the past year has been greatly appreciated.

Respectfully submitted,

MUNICIPAL COMMITTEE,
L. A. Strader, Chairman
Stanley G. McKie
H. Frank Burkholder
Russell M. Ergood, Jr.
Harold R. Chapel
J. Creighton Riepe

What They Did at the Convention

(Continued from page 17)

Scores at the Golf

	Gross	Handi-cap	Net
S. Junger, New York	79	14	65
Clarence Maender, St. Louis	78	12	66
Gus Levy, New York	76	10	66
Jim Lynch, Boston	77	10	67
Carl Stolle, New York	94	27	67
Roy Trevine, Penna.	97	30	67
E. F. Hormel, Boston	90	22	68
Sumner Wolley, Boston	82	13	69
Bill Burke, Boston	85	16	69
Gus Schlossor, New York	99	30	69
John Sullivan, Boston	91	21	70
R. A. Morton, New York	79	8	71
E. E. Haverstick, St. Louis	86	15	71
Larry Marr, Chicago	92	19	73
Geo. McCheary, St. Petersburg	93	20	73
J. J. Lynch, Boston	91	17	74
R. V. Mosley, Penna.	87	13	74
F. E. Maguire, Penna.	105	30	75
J. B. Cornell, Dallas	79	4	75
John French, New York	90	15	75
Ted Plumridge, New York	89	14	75
Jim Kelly, Springfield	95	20	75
Jim Maguire, Boston	91	16	75
Milton Isaacs, Chicago	100	25	75
Larry Doyle, New York	89	14	75
Paul Munroe, Boston	93	17	76
E. R. Mulcock, Syracuse	98	22	76
E. J. Philips, Penna.	82	6	76
E. D. Hanrahan, New York	91	14	77
Emmett Byrne, St. Louis	91	14	77
P. S. Russell, New York	83	6	77
Mort Cayne, Cleveland	103	26	77
F. J. Wright, Jr., Boston	81	4	77
Stan Roggenburg, New York	86	8	78
E. T. Mettatal, Boston	93	15	78
Jack Glenn, Atlanta	88	10	78
S. K. Philips, Jr., Penna.	86	8	78
Sam Varnedoe, Georgia	86	8	78
Don Sherwood, Chicago	108	30	78
Larry Wrenn, New York	89	10	79
H. N. Bernard, Boston	100	21	79
R. B. Dixon, Greensboro	102	25	79
R. W. Digges, Norfolk, N. C.	88	8	80
Ralph Carr, Boston	95	15	80
Ray Murray, Boston	87	8	80
Jack Morris, Atlanta	93	12	81
R. M. Ergood, Penna.	85	4	81
Paul Yarrow, Chicago	102	21	81
Frank Lynch, Boston	90	7	83
M. L. Barrysh, New York	108	25	83
Ken Schoen, Nashville	110	25	85
M. E. Mooney, Penna.	113	25	88
Chas. Scheuer, Chicago	119	20	97
Irving Gersten, New York	120	20	100
Tom O'Rourke, Penna.	131	30	101

No Cards: Frank Kennedy, Boston; Stan Koener, Chicago; R. W. Thornburg, Cincinnati; C. W. Williams, New York.

Security Traders Association of Connecticut


Leonard O. Ritter


John E. Graham


George F. Eisele


Robert Bligh

President: Leonard O. Ritter, *Paine, Webber, Jackson & Curtis*, Hartford, Conn.

1st Vice-President: John E. Graham, *Brainard-Judd & Co.*, Hartford, Conn.

2nd Vice-President George F. Eisele, *Coburn & Middlebrook*, Hartford, Conn.

Secretary-Treasurer: Robert Bligh, *Fahnestock & Co.*, Torrington, Conn.

Governors: James P. English, *Cooley & Co.*, Hartford; Frank J. Murray, *Day, Stoddard & Williams, Inc.*, New Haven; Andrew L. Tackus, *Putnam & Co.*, Hartford; George A. Dockham, *Hincks Bros. & Co.*, New Haven.

Elected: For 1946-1947; Took Office: November 1946; Term Expires: November 1947.

Florida Security Dealers Association


Thomas S. Pierce


T. Nelson O'Rourke


Arch R. Morrison

President: Thomas S. Pierce, *Clyde C. Pierce Corp.*, St. Petersburg.

Vice-President: T. Nelson O'Rourke, *T. Nelson O'Rourke, Inc.*, Daytona Beach.

Secretary-Treasurer: Arch R. Morrison, *The Ranson-Davidson Co., Inc.*, Miami.

Governors: Don E. Arries, *D. E. Arries & Co.*, Tampa; George M. McCleary, *Florida Securities Co.*, St. Petersburg; C. T. McCready, *John Nuveen & Co.*, Miami; Arch R. Morrison, *The Ranson-Davidson Co., Inc.*, Miami; T. Nelson O'Rourke, *T. Nelson O'Rourke, Inc.*, Daytona Beach; Thomas S. Pierce, *Clyde C. Pierce Corp.*, St. Petersburg; Howard S. Wheeler, *Leedy, Wheeler & Co.*, Orlando.

National Committeemen: George M. McCleary, *Florida Securities Co.*, St. Petersburg; Clyde C. Pierce, *Clyde C. Pierce Corp.*, Jacksonville.

Elected: November 21, 1946; Took Office: November 21, 1946; Term Expires: October 31, 1947.

Georgia Security Dealers Association


J. Fleming Settle


Julian R. Hirshberg


R. C. Mathews, Jr.

President: J. Fleming Settle, *J. H. Hilsman & Co., Inc.*

Vice-Presidents: Julian R. Hirshberg, *Norris & Hirshberg, Inc.*, and Jack F. Glenn, *Courts & Co.*

Secretary-Treasurer: Robert C. Mathews, Jr., *Trust Company of Georgia.*

Executive Committee: The Officers, and Thomas M. Johnson, *Johnson, Lane, Space & Co., Inc.*; Sam L. Varnedoe, *Varnedoe, Chisholm & Co., Inc.*; Walter James, *Clement A. Evans & Co., Inc.*; Wayne Martin, *Milhous, Martin & Co.*

National Committeemen J. R. Neal, *Wyatt, Neal & Waggoner*; Lex Jolley, *Johnson, Lane, Space & Co., Inc.*; J. W. Means, *Trust Company of Georgia.*

Elected: May 30, 1947; Took Office: July 1, 1947; Term Expires: July 1, 1948.

Michael T. Kelleher, President of Boston Chamber of Commerce; Edmond Hanrahan, Securities & Exchange Commission; Vic Mosley, *Stroud & Co., Inc.*, Philadelphia Joseph Gannon, *May & Gannon*, Boston; Sumner Wolley, *Coffin & Burr, Inc.*, Boston

Mrs. Frank Harrington, Boston; Herbert D. Knox, *H. D. Knox & Co.*, Boston; Mrs. Irma Schaefer, New York City; Mrs. Emil Kumin, Boston

In Attendance at NSTA Convention

ABBE, RICHARD F.
Van Tuyl & Abbe, New York

***ADAMS, ROBERT H.**
L. F. Rothschild & Co., Boston, Mass.

***ARNOLD, HARRY L.**
Paine, Webber, Jackson & Curtis, New York

ARNOLD HENRY J.
Clair S. Hall & Co., Cincinnati, Ohio

AYERS, WM. L.
Finance, Chicago, Ill.

BAILEY, BENJAMIN A.
Dayton Haigney & Co., Inc. Boston, Mass.

BAKER, ALBERT W.
F. Brittain Kennedy & Co. Boston, Mass.

***BAMBERGER, E. CLINTON**
Baumgartner & Co., Baltimore, Md.

BARMONDE, PHILIP T.
Seaver & Co., New York

BARTON, D. FREDERICK
Eastman Dillon & Co., New York City

BARYSH, MURRAY L.
Ernst & Co., New York

***BERNARD, H. N., JR.**
Schirmer, Atherton & Co., Boston, Mass.

*Denotes Mr. and Mrs.

BERRY, ALLISON M.
Robert Garrett & Sons, Baltimore, Md.

***BLIZZARD, HERBERT H.**
Hess, Blizzard & Co., Philadelphia, Pa.

***BLOOM, RALPH M.**
Thomas E. King, & Co. Chicago, Ill.

BLUM, ERNEST
Brush Slocumb & Co., San Francisco, Calif.

BOGGS, WILLIAM H.
Kalb, Voorhis & Co., New York

BOLAND, WM. H.
Boland, Saffin Co., New York

BOYNTON, HERBERT
H. F. Boynton & Co., New York

BRADLEY, R. EMMET
Mackubin, Legg & Co., Baltimore, Md.

***BREEN, FRANK A.**
Schirmer, Atherton & Co., Boston, Mass.

BROCKMEYER, EDDIE H.
Goldman, Sachs & Co., St. Louis, Mo.

BROWN, W. PERRY
Newman, Brown & Co., New Orleans, La.

BUNN, JOHN W.
Stifel, Nicolaus & Co., Inc., St. Louis, Mo.

***BURKE, WM. J.**
May & Gannon, Inc., Boston, Mass.

BURKHOLDER, H. F.
Equitable Securities Corp., Nashville, Tenn.

***BUTLER, J. WILMER**
Baker, Watts & Co., Baltimore, Md.

BYRNE, R. EMMET
Dempsey-Tegeler & Co., St. Louis, Mo.

CALVERT, ROBERT
Tifft Bros., Hartford, Conn.

CAMPBELL, MARGUERITE A.
A. C. Wood, Jr. & Co., Philadelphia, Pa.

CANAVAN, JOHN L.
Rauscher, Pierce & Co., Dallas, Texas

CARR, FREDERICK
Tucker, Anthony & Co., Boston, Mass.

***CARR, RALPH F.**
Ralph F. Carr & Co., Inc., Boston, Mass.

CASEY, ELIZABETH M.
Hunnewell & Co., Boston, Mass.

CASWELL, C. WARREN
McGinnis, Bampton & Sellger, New York, N. Y.

CAUGHLIN, EDWARD J.
Edward J. Caughlin & Co., Philadelphia, Pa.

(Continued on page 20)

In Attendance at NSTA Convention

(Continued from page 19)

***CAYNE, MORTON A.**
Cayne, Robbins & Co., Cleveland, Ohio.

CHAMBERS, CARLTON
F. Brittain Kennedy & Co., Boston, Mass.

CHANDLER, CARL V.
Goldman, Sachs & Co., Boston, Mass.

CHAPIN, JOHN
Kidder, Peabody & Co., Boston, Mass.

*Denotes Mr. and Mrs.

CLARK, PHIL
Ames C. Sudler & Co., Denver, Colo.

CLEAVER, JAMES P.
Goodbody & Co., New York

COLLINS, GEORGE
Geyer & Co., Inc., New York

***CONARY, WILFRED G.**
J. Arthur Warner & Co., Boston, Mass.

CONNELL, LAWRENCE
Wellington Fund, Boston, Mass.

CONNOLLY, MRS., WALTER J.
Walter J. Connolly & Co., Boston, Mass.

CONWAY, JAMES J.
Moors & Cabot, Boston, Mass.

CORNELL, JR., JOHN B.
Dallas Rupe & Son, Dallas, Texas

***CREAMER, EDWARD**
Schirmer, Atherton & Co., Boston, Mass.

CURTIS, F. HARMON
Robert Hawkins & Co., Inc., Boston, Mass.

CUSACK, WILLIAM C.
Keystone Custodian Funds, Boston, Mass.

DAGGY, J. GENTRY
H. M. Byllesby & Co., Philadelphia, Pa.

***DALEY, JOHN L.**
E. H. Rollins & Sons, Inc., Boston, Mass.

***D'ARCY, JOHN J.**
F. L. Putnam & Co., Inc., Boston, Mass.

***DARLING, RODNEY M.**
Dupont, Homsey Co., Boston, Mass.

DAVIES, W. H.
Harriman Ripley & Co., Boston, Mass.

(Continued on page 21)

Bond Traders Club of Chicago




Lawrence Marr — John C. Rogers — S. E. Dawson-Smith — Paul Bax

President: Lawrence Marr, *E. H. Rollins & Sons, Inc.*
Vice-President: John C. Rogers, *Hickey & Co.*
Secretary: Stanley Dawson-Smith, *Straus & Blosser.*
Treasurer: Paul Bax, *Kidder, Peabody & Co.*
Directors Elmer W. Erzberger, *Smith, Burris & Co.;* Howard C. Morton, *McMaster Hutchinson & Co.;* Chris J. Newpart, *Merrill Lynch, Pierce, Fenner & Beane;* Donald B. Stephens, *Paul H. Davis & Co.*
National Delegates: Lawrence Marr, *E. H. Rollins & Sons, Inc.;* Chris J. Newpart, *Merrill Lynch, Pierce, Fenner & Beane;* Elmer W. Hammell, *Caswell & Co.;* Milton J. Isaacs, *Straus & Blosser;* Howard Morton, *McMaster Hutchinson & Co.*
Alternates: Glen L. Darfler, *Kneeland & Co.;* Star C. Koerner, *Mitchell, Hutchins & Co.;* Evar L. Linder, *Paine, Webber, Jackson & Curtis;* Thomas Montgomery, *Glore, Forgan & Co.;* Orville Strong, *The First National Bank of Chicago.*
Elected: December 31, 1946; Took Office: March 1, 1947; Term Expires: February 29, 1948.

Bond Club of Louisville




Charles C. King — Urban J. Alexander — Russell Ebinger — Eugene W. Bright

President: Charles C. King, *The Bankers Bond Co.*
Vice-President: Urban J. Alexander, *Urban J. Alexander & Co.*
Secretary: Russell Ebinger, *Smart & Wagner.*
Treasurer: Eugene W. Bright, *Blyth & Co., Inc.*
National Committeeman: Thomas Graham, *The Bankers Bond Company.*
Alternate: Mrs. Ora M. Ferguson, *Merrill Lynch, Pierce, Fenner & Beane.*
Elected: July 2, 1947; Take Office: September 1, 1947; Term Expires: September 1, 1948.

New Orleans Security Traders Association



Joseph P. Minetree — Jackson A. Hawley — Macrery B. Wheeler

President Joseph P. Minetree, *Steiner, Rouse & Co.*
Vice-President: Jackson A. Hawley, *Equitable Securities Corp.*
Secretary-Treasurer: Macrery B. Wheeler, *Wheeler & Woolfolk, Inc.*
National Committeemen: Errol E. Buckner, *National Bank of Commerce;* J. W. Kingsbury, *Kingsbury & Alvis.*
Alternates: Wm. Perry Brown, *Newman, Brown & Co.;* R. Jeremy Glas, *Glas & Company.*
Elected: October 10, 1946; Took Office: October 10, 1946; Term Expires: October 1947.

Emil Kumin, *Estabrook & Co.*, Boston; Clinton Hough, *J. Arthur Warner & Co.*, Boston; J. Gentry Daggy, *H. M. Byllesby & Co.*, Philadelphia

Mr. and Mrs. William J. Burke, *May & Gannon*, Boston; Arthur Farrell, *H. M. Byllesby & Co.*, Chicago; John Cornell, *Dallas Rupe & Son*, Dallas, Tex.

In Attendance at NSTA Convention

(Continued from page 20)

DAVIS, JOE H.
First Nat'l Bank, Memphis, Tenn.

***DAY, WILFRED N.**
Chas. A. Day & Co., Inc., Boston, Mass.

DENTON, GEORGE R. S.
Denton & Co., Boston, Mass.

DeYOUNG, NEIL
DeYoung, Larson & Tornga, Grand Rapids, Mich.

***DIEHL, ROBERT D.**
William R. Staats & Co., Los Angeles, Calif.

DIETRICH, HENRY J.
L. F. Rothschild & Co., Boston, Mass.

DIGGES, REID W.
Hampden Roads Sanitary District Commission, Virginia

DIXON, R. B.
McDaniel Lewis & Co., Greensboro, North Carolina

DODSON, PAUL E.
Union Securities Corp., Boston, Mass.

***DOCKHAM, GEORGE A.**
Hincks, Bros. & Co., Inc., New Haven, Conn.

DONOVAN, P. WARREN
Dayton Haigney & Co., Boston, Mass.

DOYLE, LARRY
Hardy & Co., New York, N. Y.

DOYLE, LEO J.
Doyle, O'Connor & Co., Chicago, Illinois

***DRINKARD, OSCAR B.**
Scott, Horner & Mason, Inc., Lynchburg, Va.

***DUFFY, JAMES R.**
Paine, Webber, Jackson & Curtis, Boston, Mass.

DURGIN, CHESTER R.
Lee Higginson Corp., Boston, Mass.

DYKES, ALVIN A.
Whitney & Elwell, Boston, Mass.

EAGAN, WALTER F.
Hunnewell & Co., Boston, Mass.

***EARNEST, GEO. H.**
Fewel & Co., Los Angeles, Calif.

***EBINGER, RUSSELL**
Smart & Wagner, Louisville, Kentucky

***EGAN JOHN F.**
First California Co., San Francisco, Calif.

***EISELE, GEORGE F.**
Coburn & Middlebrook, Hartford, Conn.

***ELDER, GEO. J.**
Mercier, McDowell & Dolphyn, Detroit, Mich.

ENGDAHL, ARTHUR E.
Goldman, Sachs & Co., Boston, Mass.

*Denotes Mr. and Mrs.

ERGOOD, JR., RUSSELL M.
Stroud & Co., Inc., Philadelphia, Pa.

FARRELL, ARTHUR E.
H. M. Byllesby & Co., Chicago, Ill.

FERGUSON, MRS., ORA M.
Merrill, Lynch, Pierce, Fenner & Beane, Louisville, Ky.

***FISCHER, FREDERICK**
H. N. Nash & Co., Philadelphia, Pa.

FISHER, CHARLES N.
Singer, Deane & Scribner, Pittsburgh, Pa.

FITZGERALD, JOHN M.
W. C. Pitfield & Co., Inc., New York

FLANDERS, HARRY
Harriman Ripley & Co., Boston, Mass.

FOGG, ROBERT B.
Blyth & Co., Inc., Boston, Mass.

FOSTER, JR., HATHERLY
Vance, Sanders & Co., Boston, Mass.

***FREEAR, LANDON A.**
William N. Edwards & Co., Fort Worth, Texas

(Continued on page 22)

In Attendance at NSTA Convention

(Continued from page 21)

FRENCH, JOHN S.
A. C. Allyn & Co., Inc., New York

FULLER, W. A.
William A. Fuller & Co., Chicago, Ill.

FULTON, WALLACE
Exec. Sec. Nat'l Assoc. of Security Dealers, Philadelphia, Pa.

FURMAN, III, ALESTER G.
Alester G. Furman Co., Greenville, So. Carolina

GAGE, D. RIPLEY
Estabrook & Co., Boston, Mass.

***GANNON, JOSEPH**
May & Gannon, Inc., Boston, Mass.

GAWNE, HARRY J.
Merrill, Turben & Co., Cleveland 14, Ohio

*Denotes Mr. and Mrs.

***GERSTEN, IRVING**
Gersten & Frenkel, New York

GEYER, GEORGE
Geyer & Co., Inc., New York

GHEGAN, A. KINGSTON
Kalb, Voorhis & Co., New York

GIBBS, ARLENE
Laird, Bissell & Meeds, New York

GIBSON, CHARLES E.
Whiting, Weeks & Stubbs, Boston, Mass.

GLENN, JACK F.
Courts & Co., Atlanta, Ga.

GOLDTHWAITE, CLYDE M.
Merchants National Bank, Boston, Mass.

***GOSHIA, OLIVER**
Goshia & Co., Toledo, Ohio

GOTTRON, RICHARD A.
Gottron, Russell & Co., Cleveland, Ohio

***GRAHAM, JOHN E.**
Brainard, Judd & Co., Hartford, Conn.

GRAHAM, THOMAS
The Bankers Bond Co., Inc., Louisville, Kentucky

GREENAWALT, SAMUEL, AND SAMUEL GREENAWALT, JR.
Mac Naughton-Greenawalt & Co., Grand Rapids, Mich.

GREENE, IRVING AND MISS D'VERA GREENE
Greene & Company, New York

***GRIFFIN, OSCAR D.**
Lord, Abbett & Co., New York

GRINDEL, GUSTAV J.
Francis I. du Pont & Co., New York

GUILD, ROBERT
Public Relations Dir., Boston Stock Exchange

GUTBERLET, EDWIN S.
Paine, Webber, Jackson & Curtis, New York

HAGENSIEKER, EARL L.
Reinholdt & Gardner, St. Louis Mo.

HAHN, CHARLES E.
Scherck, Richter Co., St. Louis, Mo.

***HAIGNEY, DAYTON**
Dayton Haigney & Co., Inc., Boston, Mass.

***HALL, CLAIR S.**
Clair S. Hall & Co., Cincinnati, Ohio

***HALL, FRANK L.**
Pflugfelder & Rust, New York

HALLET, LEAMAN
Draper, Sears & Co., Boston, Mass.

***HAMMELL, ELMER W.**
Caswell & Co., Chicago, Ill.

HANRAHAN, EDMOND
Securities Exchange Commission, Philadelphia, Pa.

HANSEL, DOUGLAS R.
Wertheim & Co., New York

HARDONY, MICHAEL
Finley & Co., Cleveland, Ohio

HARKNESS, ROBERT B.
Whiting, Weeks & Stubbs, Boston, Mass.

***HARMET, ALFRED A.**
A. A. Harmet & Co., Chicago, Ill.

(Continued on page 23)

Security Traders Association of Los Angeles

Lawrence S. Pulliam — Thomas J. Euper — William Miller — Robert Diehl

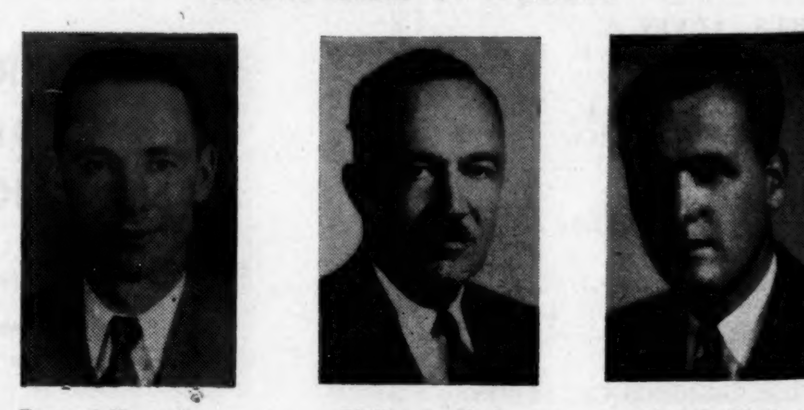
President: Lawrence S. Pulliam, *Weeden & Co.*
Vice-President: Thomas J. Euper, *Cohu & Torrey.*
Secretary: William Miller, *Fairman & Co.*
Treasurer: Robert Diehl, *William R. Staats Co.*
Governors: Oliver B. Scott, *Maxwell, Marshall & Co.*; Joseph L. Ryons, *Pacific Co. of California*; Nicholas P. Kirwan, *Dean Witter & Co.*
National Committeemen: Lawrence S. Pulliam, *Weeden & Co.*; Stephen C. Turner, *Turner, Poindexter & Co.*
Alternate: Clifford Poindexter, *Turner, Poindexter & Co.*
Elected: October 1946; Took Office: November 1946; Term Expires: December 31, 1947.

San Francisco Bond Traders Association

Elmer L. Weir — Collins L. Macrae — John E. Buick

President: Elmer L. Weir, *Brush, Slocumb & Co.*
Vice-President: Collins L. Macrae, *Wulff, Hansen & Co.*
Secretary-Treasurer: John E. Buick, *American Trust Company.*
Directors: James M. Stewart, *Wilson, Johnson & Higgins*; L. J. Spuller, *Elworthy & Co.*; J. D. McMahon, *Merrill Lynch, Pierce, Fenner & Beane*; Frank Bowyer, *Schwabacher & Co.*
National Committeemen: Ernest E. Blum, *Brush, Slocumb & Co.*; Collins L. Macrae, *Wulff, Hansen & Co.*

Bond Club of Denver



Bernard Kennedy — Phillip J. Clark — Glen B. Clark

President: Bernard Kennedy, *Bosworth, Sullivan & Co.*
Vice-President: Donald F. Brown, *Boettcher & Co.*
Secretary: Glen B. Clark, *Sidlo, Simons, Roberts & Co.*
Treasurer: Phillip J. Clark, *Amos C. Sudler & Co.*
Directors: John Alff, *Amos C. Sudler & Co.*; Robert L. Mitton, *Robert L. Mitton Investments*; Harry Middaugh, *Garrett-Bromfield & Co.*
National Committeemen: Hal Myers, *Harris, Upham & Co.*; Bernard Kennedy, *Bosworth, Sullivan & Co.*
Elected: November 21, 1946; Took Office: December 1, 1946; Term Expires: December 31, 1947.

Mr. and Mrs. Ed. Welch, *Sincere & Co.*, Chicago; T. Geoffrey Horsfield, *Wm. J. Mericka & Co.*, New York City

Mr. and Mrs. Don Homsey, *du Pont, Homsey Co.*, Boston; Robert H. Warren, *Geyer & Co., Inc.*, Boston

In Attendance at NSTA Convention

(Continued from page 22)

*HARRINGTON, FRANK T.
H. D. Knox & Co., Inc., Boston, Mass.

HARRIS, HOWARD S.
Baldwin, White & Co., Boston, Mass.

HATCHER, LLOYD B.
Trust of Georgia, Atlanta, Ga.

HAVERSTICK, JR., E. E.
Smith, Moore & Co., St. Louis, Mo.

HEANEY, MICHAEL J.
Joseph McManus & Co., New York

HECHT, JOHN C.
Butler-Huff & Co., Los Angeles, Calif.

HOWARD, RICHARD W.
Hallowell, Sulzberger & Co., Philadelphia, Pa.

HILL, DRAPER
John Nuveen & Co., Boston, Mass.

HILL, KENNETH B.
Kenneth B. Hill & Co., Boston, Mass.

*HOMSEY, ANTON E.
DuPont, Homsey Co., Boston, Mass.

HOOPER, L.
Hooper-Kimball, Inc., Boston, Mass.

*HORMEL, EDWARD F.
White, Weld & Co., Boston, Mass.

HORN, CLARENCE A.
First of Michigan Corp., Detroit, Mich.

HORSFIELD, T. G.
Wm. J. Mericka & Co., Inc., New York

*HUDSON, JOHN M.
Thayer, Baker & Co., Philadelphia, Pa.

HUGHES, SPEED
J. Arthur Warner & Co., Boston, Mass.

HUNT, E. JANSEN
White, Weld & Co., New York

*HUNTER, WELLINGTON
Aetna Securities Corp., New York

HURLBURT C. GRAHAM
Henry P. Briggs & Co., Boston, Mass.

INGALLS, ROBERT U.
Tucker, Anthony & Co., Boston, Mass.

ISAACS, HENRY G.
Virginia Securities Co., Norfolk, Va.

*ISAACS, MILTON J.
Straus & Blosser, Chicago, Ill.

*JACKSON, PHIL P.
Jackson & Smith, Gastonia, No. Carolina

*JACQUES, J. F.
First Southwest Co., Dallas, Texas

JOLLEY, LEX
Johnson, Lane, Space & Co., Inc., Atlanta, Ga.

JONES, EDWARD D.
Edward D. Jones & Co., St. Louis, Mo.

JONES, JACK E.
Hartley Rogers & Co., Seattle, Wash.

JORDAN, DOROTHY
R. W. Pressprich & Co., Boston, Mass.

JORDAN, JR., CARL G.
R. W. Pressprich & Co., Boston, Mass.

*JUNGER, SAMUEL H.
Junger, Anderson & Co., New York

KELLEHER, MICHAEL T.
Pres. Chamber of Commerce, Boston, Mass.

KELLY, EDWARD J.
Carl M. Loeb, Rhoades & Co., New York

KELLY, JAMES A.
Tifft Brothers, Springfield, Mass.

KENDRICK, PHILLIP
Securities Exchange Comm., Boston, Mass.

KENNEDY, F. BRITTAIN
F. Brittain Kennedy & Co., Boston, Mass.

(Continued on page 24)

*Denotes Mr. and Mrs.

In Attendance at NSTA Convention

(Continued from page 23)

***KENNEY, PHILIP F.**
E. M. Newton & Co., Boston, Mass.

KENT, RODNEY P.
J. Arthur Warner & Co., Inc., Boston, Mass.

***KILNER, GEORGE M.**
Brown, Lisle & Marshall, Providence, R. I.

KING, CHARLES C.
The Bankers Bond Co., Inc., Louisville, Ky.

KING, WILLIAM T.
National Rockland Bank, Boston, Mass.

KIRKPATRICK, EDWARD L.
National Securities Co., Nashville, Tenn.

***KNOX, HERBERT D.**
H. D. Knox & Co., Inc., New York

*Denotes Mr. and Mrs.

***KOERNER, STAR C.**
Mitchell, Hutchins & Co., Chicago, Ill.

KUHLMANN, RICHARD H.
Friedman, Brokow & Lesser, St. Louis, Mo.

***KOSEK, ERNEST**
Ernest Kosek & Co., Cedar Rapids, Iowa

***KUMIN, EMIL**
Estabrook & Co., Boston, Mass.

La BEAU, EARLE
Fitch Publishing Service, Boston, Mass.

LAHTI, MATTHEW
Matthew Lahti & Co., Boston, Mass.

LAIRD, FRANK J.
Stroud & Co., Inc., Philadelphia, Pa.

LAMONT, MRS., JOAN
Minot, Kendall & Co., Inc., Boston, Mass.

LAMONT, NICHOLAS
May & Gannon, Inc., Boston, Mass.

LANE, ROBERT W.
McBride, Miller & Co., Newark, N. J.

***LARSEN, HENRY**
F. B. Cooper, Boston, Mass.

***LATSCHA, FREDERIC F.**
Frederic Latscha & Co., Cincinnati, Ohio

LATSHAW, JOHN
Harris Upham & Co., Kansas City, Mo.

***LEAHY, D. C.**
National Quotation Bureau, Inc., Boston, Mass.

Le BEAU, IRVING
May & Gannon, Inc., Boston, Mass.

***LERNER, LOUIS C.**
Lerner & Co., Boston, Mass.

LEE, MRS., L. H.
Medford, Mass.

LESTRANGE, GEORGE E.
Arthurs, Lestrange & Klima, Pittsburgh, Pa.

LEVINE, CARL A.
F. L. Putnam & Co., Inc., Boston, Mass.

LEVY, GUSTAVE L.
Goldman, Sachs & Co., New York

LIVINGSTON, ROBERT
L. J. Schultz & Co., New York

LOPATO, ALLAN
Allen & Co., New York

***LOTHROP, GILBERT M.**
W. E. Hutton & Co., Boston, Mass.

LOUGHLIN, WILLIAM C.
Bull, Holden & Co., New York

LOVELAND, FRANKLIN O.
Field, Richards & Co., Cincinnati, Ohio

***LYNCH, FRANK E.**
Hunnewell & Co., Boston, Mass.

***LYNCH, JAMES J.**
Shea & Co., Boston, Mass.

(Continued on page 25)

Baltimore Security Traders Association


J. Wilmer Butler

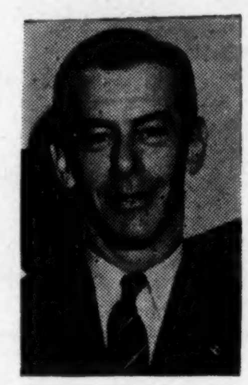

Charles Gross


Bernard E. Eberwein


H. Mitchell Bruck

President: J. Wilmer Butler, *Baker, Watts & Co.*
Vice-President: Charles Gross, *Harry M. Sheely & Co.*
Secretary: Bernard E. Eberwein, *Alex. Brown & Sons.*
Treasurer: H. Mitchell Bruck, *Baumgartner & Co.*
Board of Governors: Edward B. Freeman, *Lockwood, Peck & Co.*; E. Guy Gray, *Mercantile Trust Co.*; E. Elwood McClure, *Stein Bros. & Boyce.*
National Committeemen: J. Wilmer Butler, *Baker, Watts & Co.*; John M. O'Neill, *Stein Bros. & Boyce.*
Elected: December 6, 1946; Took Office: January 1, 1947; Term Expires: January 1, 1948.

Boston Securities Traders Association


Sumner R. Wolley


H. N. Bernard, Jr.


Arthur E. Engdahl


T. Edmund Williams


Harold A. Madary

President: Sumner R. Wolley, *Coffin & Burr, Inc.*
Vice-President: Hubert N. Bernard, Jr., *Schirmer, Atherton & Co.*
Treasurer: Arthur E. Engdahl, *Goldman, Sachs & Co.*
Corresponding Secretary: T. Edmund Williams, *Hooper-Kimball, Inc.*
Recording Secretary: Harold A. Madary, *Geyer & Co.*
Governors: Robert H. Adams, *L. F. Rothschild & Co.*; Dayton P. Haigney, *Dayton Haigney & Co.*; Leaman F. Hallett, *Draper, Sears & Co.*; Anton E. Homsey, *du Pont, Homsey Co.*; Alex. W. Moore, *J. Arthur Warner & Co.*; Edward J. Opper, *E. H. Rollins & Sons, Inc.*
National Committeemen: Dayton P. Haigney, *Dayton Haigney & Co.*; Sumner R. Wolley, *Coffin & Burr, Inc.*; Wilfred N. Day, *Chas. A. Day & Co.*; Joseph Gannon, *May & Gannon, Inc.*; Frank E. Lynch, *Hunnewell & Co.*
Elected: October 1, 1946; Took Office: October 1, 1946; Term Expires: December 31, 1947.

John H. Hudson, *Thayer, Baker & Co.*, Philadelphia; Fred Fischer, *H. N. Nash & Co.*, Philadelphia; Mike Heaney, *Jos. McManus & Co.*, New York City

Tom Graham, *Bankers Bond Co.*, Louisville, Ky.; James J. Lynch, *Shea & Co.*, Boston, Mass.; Harold Smith, *Collin, Norton & Co.*, New York City

In Attendance at NSTA Convention

(Continued from page 24)

LYON, WILLIAM E. B.
R. S. Dickson & Co., Inc., Charlotte, North Carolina

LYONS, KEVIN T.
Lyons & Shafto, Boston, Mass.

MADER, HENRY
Tucker, Anthony & Co., New York

***MAENDER, CLARENCE J.**
G. H. Walker & Co., St. Louis, Mo.

***MALONEY, EDWARD**
Dept. of Public Utilities, Boston, Mass.

***MACK, M. ALFRED**
Westheimer & Co., Cincinnati, Ohio

MACRAE, JR., COLLINS
Wulff, Hansen & Co., San Francisco, Calif.

***MADARY, HAROLD**
Geyer & Co., Inc., Boston, Mass.

***MAGID, SAMUEL E.**
Hill, Thompson & Co., Inc., New York

MAGUIRE, F. E.
Stroud & Co., Inc., Philadelphia, Pa.

***MAGUIRE, JAMES B.**
E. H. Rollins & Sons, Inc., Boston, Mass.

***MAGUIRE, JOHN E.**
May & Gannon, Inc., Boston, Mass.

MARKELL, BETTY-JO
Greene & Co., New York

***MARR, LAWRENCE**
E. H. Rollins & Sons, Inc., Chicago, Ill.

***MARSLAND, ALLISON**
Wood, Gundy & Co., Inc., New York

***MAY, WILLIAM**
May & Gannon, Inc., Boston, Mass.

***MAYER, JOHN M.**
Merrill Lynch, Pierce, Fenner & Beane, New York

***McCLEARY, GEO. M.**
Florida Securities Co., St. Petersburg, Fla.

McCUE, JOHN A.
May & Gannon, Inc., Boston, Mass.

McDOWELL, LEWIS D.
J. Arthur Warner & Co., Boston, Mass.

McLAUGHLIN, JOHN F.
McLaughlin, Reuss & Co., New York

***McOMBER, A. S.**
Revel Miller & Co., Los Angeles, Calif.

***McPOLIN, BEN J.**
McDonald & Co., Cleveland, Ohio

McTAVISH, S. C.
A. E. Ames & Co., Boston, Mass.

***MEANS, J. W.**
Trust Company of Georgia, Atlanta, Ga.

***MERICKA, WM. J.**
Wm. J. Mericka & Co., Cleveland, Ohio

MEYER, MILTON S.
Shufro, Rose & Co., New York

***MILLER, DON W.**
McDonald-Moore & Co., Detroit, Mich.

***MONROE, PAUL**
Hunnewell & Co., Boston, Mass.

MOONEY, MICHAEL J.
Special Counsel Securities and Exchange Commission, Philadelphia, Pa.

***MOORE, ALEXANDER W.**
J. Arthur Warner & Co., Boston, Mass.

MOORE, FREDERICK S.
J. Arthur Warner & Co., Boston, Mass.

***MORELAND, PAUL I.**
Moreland & Co., Detroit, Mich.

MORRIS, JACK C.
Courts & Co., Atlanta, Ga.

***MORRISON, JAMES A.**
Ballou, Adams & Co., Inc., Boston, Mass.

MORTON, RONALD A.
The Blue List Publ. Co., New York

(Continued on page 26)

*Denotes Mr. and Mrs.

In Attendance at NSTA Convention

(Continued from page 25)

***MOSLEY, R. VICTOR**
Stroud & Co., Inc., Philadelphia, Pa.

***MOYNIHAN, JAMES E.**
E. H. Rollins & Sons, Inc., Boston, Mass.

***MULCOCK, E. R.**
E. R. Mulcock & Co., Syracuse, N. Y.

MULLEN, JOHN J.
Garrett-Bromfield & Co., Denver, Colo.

MULLER, GEORGE T.
Janney & Co., Philadelphia, Pa.

***MULLINS, THOMAS J.**
White, Weld & Co., New York

***MURPHY, ARTHUR C.**
Bond & Goodwin, Inc., Boston, Mass.

MURPHY, H. E.
The Financial Chronicle, New York

***MURPHY, TIMOTHY D.**
Chace, Whiteside, Warren & Sears, Boston, Mass.

MURRAY, FRANK J.
Day, Stoddard & Williams, Inc., New Haven, Conn.

MURRAY, RAYMOND M.
Tucker, Anthony & Co., Boston, Mass.

MUSSON, JAMES F.
B. J. Van Ingen & Co., New York

NEAL, J. R.
Wyatt, Neal & Waggoner, Atlanta, Ga.

***NEWMAN, LEO F.**
J. Arthur Warner & Co., Boston, Mass.

NIEMAN, BARNEY
Carl Marks & Co., Inc., New York

O'CONNOR, WILLIAM D.
Fitzgerald & Co., Inc., New York

***ODENWELLER, JR., C. J.**
SEC, Cleveland, Ohio

OETJEN, HENRY
McGinnis, Bampton & Sellger, New York

O'KANE, JR., JOHN J.
John J. O'Kane, Jr. & Co., New York

O'NEILL, JOHN M.
Stein Brothers & Boyce, Baltimore, Md.

O'NEILL, LORRAINE M.
Sincere & Co., Chicago, Ill.

***OPPER, EDWARD J.**
E. H. Rollins & Sons, Inc., Boston, Mass.

OXLEY, A. E. C.
The Dominion Securities Corp. New York

O'ROURKE, THOMAS F.
Stroud & Co., Inc., Philadelphia, Pa.

***PARSONS, EDWARD E.**
Wm. J. Mericka & Co., Cleveland, Ohio

PAYSON, GEORGE S.
H. M. Payson & Co., Portland Maine

***PETERSEN, JOSEPH G.**
Eckhardt-Petersen & Co., Inc. St. Louis, Mo.

PETTEY, HERBERT
Equitable Securities Corp. Nashville, Tenn.

PHELPS, ROGER
Campbell, Phelps & Co., New York

PHILLIPS, EDWARD J.
Samuel K. Phillips & Co. Philadelphia, Pa.

PHILLIPS, JR., SAMUEL K.
Samuel K. Phillips & Co. Philadelphia, Pa.

***PIERCE, RALPH W.**
Moors & Cabot, Boston, Mass

***PIZZINI, B. WINTHROP**
B. W. Pizzini & Co., Inc., New York

PLUMRIDGE, THEODORE E.
J. Arthur Warner & Co., Inc. New York

POTTER, J. LEE
A. W. Wood & Co., Boston Mass.

***POTTER, J. RUSSELL**
Arthur W. Wood & Co., Boston, Mass.

PULLIAM, LAWRENCE S.
Weeden & Co., Los Angeles, Calif.

PURCELL, HOYT
Martin-Holloway-Purcell, Kansas City, Mo.

QUIGLEY, J. L.
Quigley & Co., Cleveland, Ohio

QUINN, JOHN J.
Stone & Youngberg, San Francisco, Calif.

RAYMOND, LAWRENCE J.
Raymond & Co., Boston, Mass.

REHN, MISS, WANDA
John J. O'Kane & Co., New York

RICE, JR., FRED W.
C. F. Childs & Co., Boston, Mass.

RICE, IRVING J.
Irving J. Rice & Co., Inc., St. Paul, Minn.

RICE, J. PRESTON
White, Weld & Co., Boston, Mass.

RICHARDSON, JOSEPH A.
F. S. Moseley & Co., Waban, Mass.

RICHTER, HENRY J.
Scherck, Richter Co., St. Louis, Mo.

ROBERTS, JR., WILLIAM C.
C. T. Williams & Co., Inc., Baltimore, Md.

ROBINSON, E. S.
Phillips, Schmertz & Robinson, Philadelphia, Pa.

***ROGERS, JOHN C.**
Hickey & Co., Chicago, Ill.

ROGGENBURG, STANLEY
Roggenburg & Co., New York

RONEY, JOHN K.
Wm. C. Roney & Co., Detroit, Mich.

(Continued on page 27)

*Denotes Mr. and Mrs.

Security Traders Association of Detroit And Michigan, Inc.

Harold R. Chapel Ralf A. Crookston Clarence A. Horn Reginald MacArthur

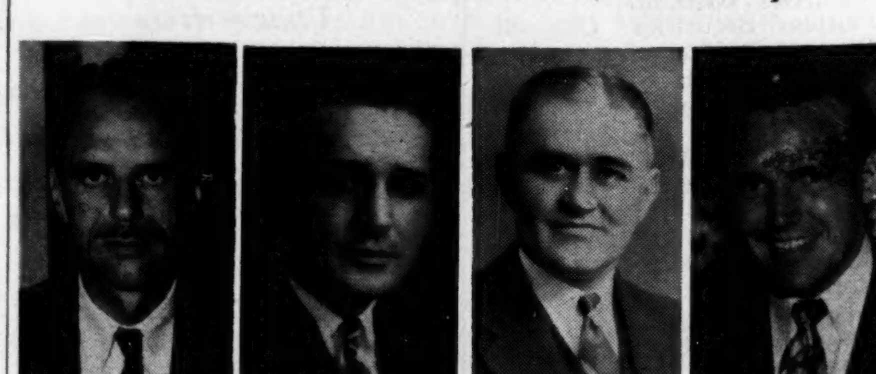
President: Harold R. Chapel, *McDonald-Moore & Co.*
Vice-President: Ralf A. Crookston, *Hornblower & Weeks.*
Treasurer: Clarence A. Horn, *First of Michigan Corp.*
Secretary: Reginald MacArthur, *Miller, Kenower & Co.*
Directors: The Officers, and Charles C. Bechtel, *Watling, Lerchen & Co.;* George J. Elder, *Mercier, McDowell & Dolphyn;* Charles Exley, *Charles A. Parcells & Co.;* Paul I. Moreland, *Moreland & Co.;* Claude G. Porter, *Mercier, McDowell & Dolphyn;* H. Terry Snowday, *E. H. Rollins & Sons, Inc.*
National Committeemen: Frank H. Kemp, *R. C. O'Donnell & Co.;* Bert F. Ludington, *Baker, Simonds & Co.;* Frank P. Meyer, *First of Michigan Corp.;* Don W. Miller, *McDonald-Moore & Co.*
Alternates: Ray P. Bernardi, *Cray, McFawn & Co.;* Neil De Young, *De Young, Larson & Tornga;* George J. Elder, *Mercier, McDowell & Dolphyn;* H. Russell Hastings.
Elected: August 29, 1946; Took Office: October 1, 1946; Term Expires September 30, 1947.

Twin City Bond Traders Association

Kermit B. Sorum Robert S. McNaghten Paul E. Matsche Martin G. Martinson

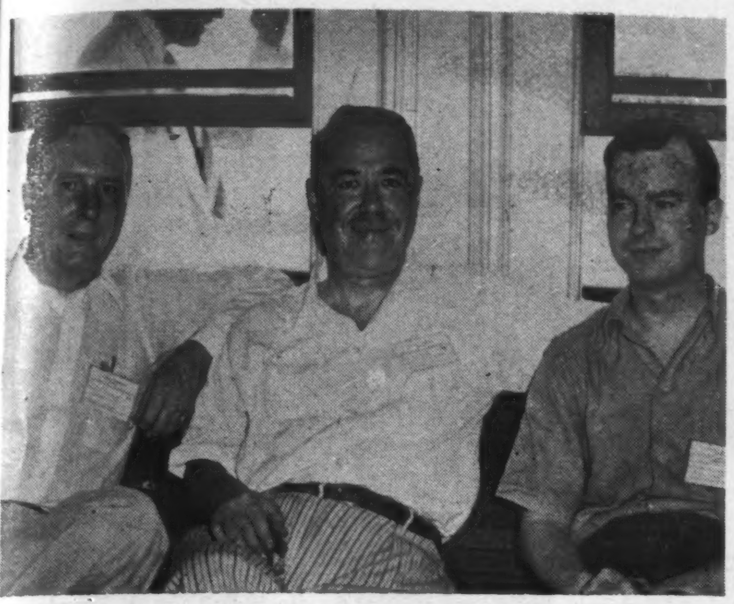
President: Kermit B. Sorum, *Allison-Williams Co.*
Vice-President: Robert S. McNaghten, *Williams McNaghten Co.*
Secretary: Paul E. Matsche, *Paine, Webber, Jackson & Curtis.*
Treasurer: Martin G. Martinson, *First National Bank of St. Paul.*
National Committeeman: William J. Lau, *C. S. Ashmun Co.*
Elected: October 3, 1946; Took Office: October 3, 1946; Term Expires: October 1947.

Bond Traders Club of Kansas City



Eldridge Robinson Claude M. McDonald Kneeland Jones John Latshaw

President: Eldridge Robinson, *Geo. K. Baum & Co.*
Vice-President: Claude M. McDonald, *McDonald & Co.*
Treasurer: Kneeland Jones, *A. E. Weltner & Co.*
Secretary: John Latshaw, *Harris, Upham & Co.*
National Committeemen: Eldridge Robinson, *Geo. K. Baum & Co.;* John Latshaw, *Harris, Upham & Co.*
Elected: January 1947; Took Office: January 1947; Term Expires: January 1948.



Paul B. Hanrahan, *Hanrahan & Co.*, Worcester, Mass.; Carl K. Ross, *Carl K. Boss & Co.*, Portland, Maine; Ben Bailey, *Dayton Haigney & Co.*, Boston

Herman Tornga, *De Young, Larson & Tornga*, Grand Rapids, Mich.; Ed. Caughlin, *Edward J. Caughlin & Co.*, Philadelphia; Neil de Young, *De Young, Larson & Tornga*, Grand Rapids, Mich.

Paul Moreland, *Moreland & Co.*, Detroit; C. J. Odenweller, Jr., Regional Administrator, SEC, Cleveland; Michael J. Mooney, special counsel, SEC, Philadelphia

In Attendance at The Convention

(Continued from page 26)

ROSS, CARL K.
Carl K. Ross & Co., Inc., Portland, Maine

ROWEN, PAUL
Reg. Admin. Securities Exch. Comm., Boston, Mass.

RUSSELL, EDWARD W.
Seligman, Lubetkin & Co., Inc., New York

RUSSELL, GORDON
Goldman, Sachs & Co., Boston, Mass.

RUSSELL, JAMES N.
Gottron, Russell & Co., Cleveland, O.

RUSSELL, P. S.
Glore, Forgan & Co., New York

SALMON, ARTHUR C.
Commerce Union Bank of Nashville, New York

SAMMON, J. F.
J. F. Sammon & Co., New York

SANDERS, JR., JESSE A.
Sanders & Newsom, Dallas, Texas

SATLER, FRANK L.
Moore, Leonard & Lynch, Pittsburgh, Pa.

***SAUNDERS, WALTER F.**
The Dominion Securities Corp., New York

***SCHAEFER, EDWARD W.**
H. D. Knox & Co., Inc., New York

***SCHEUER, CHAS. G.**
Scheuer & Co., Chicago, Ill.

SCHLOSSER, GUSTAVE
Union Securities Corp., New York

SCHOEN, KENNETH B.
J. C. Bradford & Co., Nashville, Tenn.

SCHULTZ, LEO J.
L. J. Schultz & Co., Cleveland, Ohio

***SELIGMAN, BERTRAM**
Ward & Co., New York

SENER, JOSEPH W.
Mackubin, Legg & Co., Baltimore, Md.

SHAW, HERBERT I.
Vance, Sanders & Co., New York

SHEA, JR., JOHN L.
Shea & Co., Boston, Mass.

SHEELINE, PAUL D.
Paul D. Sheeline & Co., Boston, Mass.

SHERWOOD, D. B.
Comstock & Co., Chicago, Ill.

SIMONS, KEATING L.
James Conner & Co., Charleston, South Carolina

SINGER, LOUIS P.
Troster, Currie & Summers, New York

***SKINNER, JR., WM. T.**
Walter J. Connolly Co., Boston, Mass.

(Continued on page 28)

*Denotes Mr. and Mrs.

In Attendance at NSTA Convention

(Continued from page 27)

SLOAN, DONALD C.
Sloan & Wilcox, Portland, Oregon

***SMITH, CHAS. H.**
Moors & Cabot, Boston, Mass.

***SMITH, HAROLD B.**
Collins, Norton & Co., New York

SMITH, HERBERT C.
Blyth & Co., Inc., Boston, Mass.

***SNYDER, EVERETT W.**
E. W. Snyder & Co., Syracuse, New York

***SPELLMAN, VINCENT L.**
Frederick C. Adams & Co., Boston, Mass.

***STAIB, LEE R.**
George Eustis & Co., Cincinnati, Ohio

STALKER, A. J.
Shields & Co., New York

*Denotes Mr. and Mrs.

STANLEY, GEORGE
Schirmer, Atherton & Co., Boston, Mass.

STEELE, HARRY J.
Fauset, Steele & Co., Pittsburgh, Pa.

***STEINDECKER, OTTO H.**
New York Hanseatic Corp., New York

***STOLLE, CARL**
G. A. Saxton & Co., New York

STRADER, LUDWELL A.
Scott, Horner & Mason, Inc., Lynchburg, Va.

***STRAUSS, ABRAHAM**
Strauss Bros., Inc., New York

SULLIVAN, A. A.
Equitable Securities Corp., New York

SULLIVAN, JR., JOHN E.
F. L. Putnam & Co., Inc., Boston, Mass.

SULLIVAN, HELENE N.
F. L. Putnam & Co., Inc., Boston, Mass.

SULLIVAN, ROBERT W.
Donahue & Sullivan, Boston, Mass.

SUMMERS, WILLIS M.
Troster, Currie & Summers, New York

***TABB, JR., HENRY E.**
Townsend, Dabney & Tyson, Boston, Mass.

TEGELER, JEROME
Dempsey-Tegeler & Co., St. Louis, Mo.

THORNBURGH, R. W.
The W. C. Thornburgh Co., Cincinnati, Ohio

TIRRELL, JOHN H.
Star Printing Co., Boston, Mass.

TORNGA, HERMAN
DeYoung, Larson & Tornga, Grand Rapids, Mich.

***TOWNSEND CURTICE N.**
Weeden & Co., Boston, Mass.

TREANOR, JAMES E.
Director, Trading & Exch., Securities Exchange Commission, Philadelphia, Pa.

***THOMPSON, WILLIAM S.**
Ralph F. Carr & Co., Boston, Mass.

***TREVINE, ROY**
Harriman Ripley & Co., Inc. Philadelphia, Pa.

TRIGGER, RAYMOND
Investment Dealers' Digest New York

TURNER, STEPHEN C.
Turner-Poindexter & Co., Los Angeles, Calif.

VANCE, HENRY T.
Vance, Sanders & Co., Boston, Mass.

VARNEDOE, SAMUEL L.
Varnedoe, Chisholm & Co., Inc., Savannah, Ga.

WADE, GAY D.
Detroit, Mich.

***WAKELEY, THOMPSON M.**
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Wertheim & Co., New York

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WALKER, LOUIS E.
National Quotation Bureau, Inc., New York

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WEEKS, ROBERT S.
Coffin & Burr, Boston, Mass.

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Lilley & Co., Philadelphia, Pa.

WESTON, WENDELL
Weston & Co., Boston, Mass.

WHITCOMB, BURTON F.
Blyth & Co., Inc., Boston, Mass.

WHITING, RICHARD A.
Bond & Goodwin, Inc., Boston, Mass.

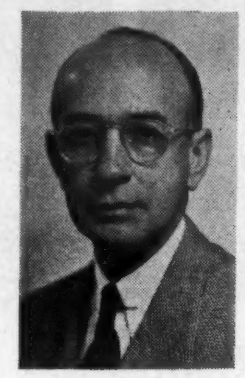
(Continued on page 37)

Security Traders Club of St. Louis


Jerome F. Tegeler


Wm. F. Dowdall


Joseph S. Fischer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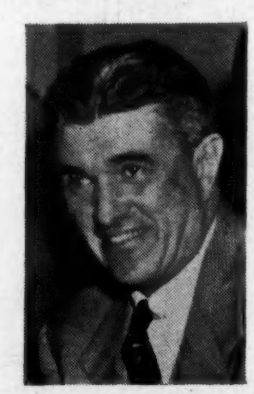
Elected: October 16, 1946; Took Office: November 1, 1946; Term Expires: October 31, 1947.

Security Traders Association of New York


Michael J. Heaney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Elected: December 1946; Took Office: January 1, 1947; Term Expires: December 31, 1947.

Mr. and Mrs. Stanley Roggenburg, *Roggenburg & Co.*, New York City; John French, *A. C. Allyn & Co.*, New York City; Samuel K. Phillips, Jr., *Samuel K. Phillips & Co.*, Philadelphia

Edward Phillips, *Samuel K. Phillips & Co.*, Philadelphia; Henry G. Isaacs, *Virginia Securities Corp.*, Norfolk, Va.; Landon A. Freear, *Wm. N. Edwards & Co.*, Fort Worth, Tex.

Investor Confidence in the Securities Market

(Continued from page 6)

the same circumstances and you won't go far wrong.

You, securities traders, perform an important function, at least so far as maintaining an orderly market is concerned. You are the men who know the market from day to day, yes, from minute to minute in many cases. Your bids can maintain an orderly market or make it chaotic. You are the heart of the over-the-counter market. Yours is a great responsibility not only to the investing public but to the economic welfare of the country. In your dealings with others you should also bear in mind your responsibility to your firm and the fact that your authorized acts are the acts of the firm, which will be held responsible by the Commission and the courts for any violations of law of which you are guilty.

On the point of customer confidence, I believe that in addition to advising a customer properly concerning the merits and demerits of a particular security as an investment and, in addition to effecting transactions at a fair price, you should make it a fundamental precept of your business practice that the customer be advised of and made to understand, the basis of his legal relationship with your firm and of the legal rights and duties flowing from that relationship.

In our review of records at the Commission involving over-the-counter broker and dealer proceedings, we face with distressing frequency the fact that customers simply do not know the basis of their relationships with many securities firms. Physicians, schoolteachers and others, possessing some intelligence and familiarity with the English language, are found not to understand that they have been buying securities **from** the firm rather than **through** the firm, and that they have been paying **profits** rather than **commissions.**

I have heard people in the securities business give the standard explanation for this. First, they say that many customers don't have sufficient intelligence to comprehend even the simplest explanations of technical matters. This is open to some question. There is no misconception in the real estate field, for example, of the functions of an agent. No one who buys a house using the services of a real estate broker has any doubt that he bought the house **through** the broker and not **from** him. It should be no more difficult to make your customers aware of the difference between the securities broker and dealer than it has been for others to train them concerning the real estate agent's functions. A brief oral discussion with the customer in each transaction, explaining to him exactly the relationship in which the firm proposes to act, should impose no impediment to and, in fact, should greatly benefit your business and increase the customer's confidence. On the other hand, a slurring over of the disclosure of the firm's status in over-the-counter transactions has been found to be the first step in many of the serious violations with which we have dealt: such as excessive markups, churning, misrepresentation and others. In doubtful cases, where the Commission is appraising the willfulness of violations and the public interest in fixing a penalty, it is likely to put a good deal of weight on the fact that the customers, in their testimony, have not been informed of and have not understood the nature of the transactions and their relationship with the firm.

So far as prices charged to customers are concerned, it has been and will continue to be Commission policy to interdict transactions effected with customers at prices which bear no reasonable relationship to the current market price. I need not enlarge upon this point. But in this connection

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Investor Confidence in the Securities Market

(Continued from page 29)

let me point out that the Commission has never adopted a rule requiring firms conducting a fair dealer business to disclose the actual market price of the securities which they buy or sell: nor does it have the adoption of any such rule in contemplation at this time. Nothwithstanding this fact, you must never forget, at any time, that you have a duty to perform to deal fairly with your customers. Unless this obligation is complied with, this Commission or some future Commission may be driven by public clamor to adopt a market disclosure rule.

Information on Over-the-Counter Securities

On the general subject of investor confidence, I should like to add one last thought. It is a matter of concern to those of us who represent agencies of the government that the minimum protections afforded by the registration requirements of the Securities Exchange Act of 1934 are not available to all investors. This ought to be of even greater concern to those of you whose responsibility it is to supervise investments of your clients. In my mind public confidence in the securities markets cannot long continue if certain issuers of securities continue to pursue a policy of withholding material facts from their public security holders. It is difficult for me to understand how a broker or dealer can advise his customer to buy the securities of an issuer which does not give recognition to its obligations to its security holders by keeping them fairly informed at reasonable intervals concerning the progress of the enterprise. In my mind an issuer which goes to the public to finance its enterprise has a moral obligation to keep the public informed of the progress of its business. This existing lack of information has a twofold defect, for it is

Bond Club of Syracuse




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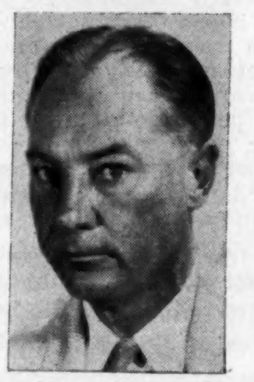
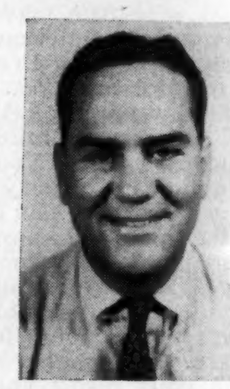
Security Dealers of the Carolinas


Keating L. Simons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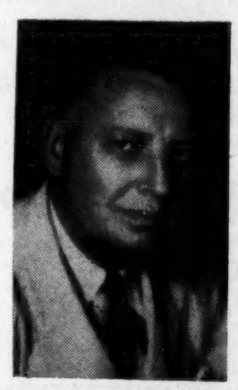
Cincinnati Stock and Bond Club


F. O. Loveland, Jr.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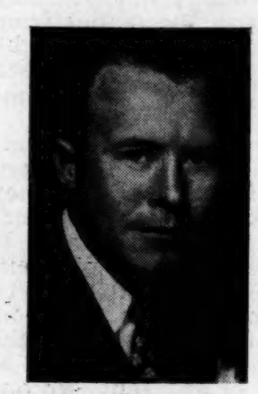
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Elected: January 10, 1947; Took Office: January 10, 1947; Term Expires: December 31, 1947.

Star Koerner, *Mitchell, Hutchins & Co.*, Chicago; Paul Monroe, *Hunnewell & Co.*, Boston

Crandon Leahy, *National Quotation Bureau*, Boston; Mrs. and Mr. Burton F. Whitcomb, *Blyth & Co., Inc.*, Boston

E. Clinton Bamberger, *Baumgartner & Co.*, Baltimore; Wilfred Day, *Chas. A. Day & Co.*, Boston

bound not only to lessen public confidence in the issuer but also in the firm which encourages its customers to invest their funds blindly. When you push an investment you have not and cannot fully investigate, the customer buying without full information will certainly remember that fact when the market drops. In times of stress the investor will lay the acts of the issuer at the door of the firm which sponsored an interest in suoh securities.

You will recall that in June, 1946 the Commission proposed to the Congress the adoption of legislation to apply to unlisted securities of large issuers some of the protections surrounding listed and registered securities, including the filing of corporate information. The Commission has not pressed the proposal recently—not because it has been abandoned by any means — but because we undertook a broad program of statutory revision based on cooperative review of the legislative problem with representatives of the securities industry. To carry out the spirit of that cooperative program we have determined to have the 1946 proposal jointly considered along with other recommendations.

We have gone forward in our consideration of that proposal and have talked it over with many people in the industry. I am glad to say that much of the opposition to it tends to disappear when the problems are talked out rationally and calmly.

The important fact to remember in all this is that we all work toward the same general objectives toward removal of sharpers and swindlers from the securities business, and toward a market which is honest and orderly, a market in which investors may be encouraged to place their savings with greater safety—a market in which they may have confidence.

You will remember that because of sharp practices customer confidence in the market was once lost. Let's not lose it again.

How Things Look to a Yankee Banker

(Continued from page 10)
stress the word government, for I have a very clear theory myself about Russia. It isn't the Russian people. It is those bloody, ruthless, cruel tyrants that control the destiny of Russia. The small uppercrust of office holders.

It is a dangerous thing to be on top in Russia when November, 1948 comes. If Joe Stalin isn't re-elected, he can't go back to Independence and settle down and write articles for "Colliers" and get $75,000 a year. He would have his damned block knocked off. Don't think he doesn't know it. All this talk about ideological warfare; it is no more ideological than Al Capone's struggle with the Chicago police was ideological. Stalin is proud to have a job. They have got a death-grip on the Russian people, and as long as they hang on they are going to be on top and they are going to be the boss. And, they are going to have what they want. And the moment they lose the grip they are going to be killed.

Well, presented with those alternatives, one doesn't even have to be as smart as they are to say, "I am going to hang on." And of course it serves Russia's ends to delay and to use the veto and to cause the most enormous peripheral ferment possible. You have got to make the Russian people feel they are being attacked or you wouldn't hold your job. It is a very dangerous thing.

I had a letter from a great friend of mine in Denmark yesterday, the widow of a former Secretary of State in Denmark. She let's me look after her money. It is safer there than in Denmark. She says that the condition of Russia is really deplorable, and that it will take them years to become the aggressor which many of us fear they are about to be.

On the other hand, she says, "Don't for a moment relax your vigilance in the United States or your attempts to bring to the Russian people, over the heads of their masters, what the facts of democratic life are."

If I were President of the United States I would devote all of the talents of the best minds in America to a warfare of ideas We have all seen in two wars that war wins nothing for anyone. Over a million American boys killed and wounded and missing in this last war. This frightful debt has been piled up upon us which we now realize isn't a good thing—not as good as we were told at one time. The awful dislocations that war brings into every walk of life. No, war doesn't win a thing. All the war does is save you from dishonor and be glad you have won it. But, it is ideas that win. Ideas with which the Soviets are infiltrating all the countries around their borders and spreading the word of how wonderful their plan is.

Why, that plan they have in Russia! When the Russian sol-
(Continued on page 33)

Cleveland Security Traders Association




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National Committeemen: Morton A. Cayne, *Cayne & Co.;* Corwin L. Liston, *Prescott & Co.*
Alternates: John A. Kruse, *Otis & Co.;* James Russell, *Gottron, Russell & Co.*
Elected: September 25, 1946; Took Office: October 1, 1946; Term Expires: December 31, 1947.

Bond Traders Club of Portland



John G. Gailbraith — Pierre A. Kosterman — Russell McJury

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Vice-President: Pierre A. Kosterman, *Conrad, Bruce & Co.*
Secretary-Treasurer: Russell McJury, *First National Bank of Portland.*
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Alternate: Donald C. Sloan, *Sloan & Wilcox.*
Elected: December 31, 1946; Took Office: December 31, 1946; Term Expires: December 31, 1947.

Mrs. Oscar D. Griffin; Sam Magid, *Hill, Thompson & Co.*, New York City (standing); Oscar D. Griffin, *Lord, Abbett & Co.*, New York City; Mrs. Sam Magid

Jim Duffy, *Paine, Webber, Jackson & Curtis*, Boston; Wanda Rehn, *Mitchell, Hutchins & Co.*, New York City; John J. O'Kane, Jr., *John J. O'Kane, Jr. & Co.*, New York City

How Things Look

(Continued from page 32)

diers went into the broken down, second rate, cheap little capitals of Bulgaria, Belgrade, Bucharest during the war and saw people with wrist watches and silk stockings, and perfume, hot water and soap, things that come in the next five-year plan of the Soviet, things many of them had never seen, it caused a very disrupting force.

You may remember that President Kalinin had to make a special speech to the Russian soldiers to tell them that it was just around the corner. They were going to have it in Russia a few years hence. And they were feeling that way after Bucharest.

Well, think if they could look—modesty forbids my saying Boston—think if they could look at Chicago, New Orleans, or Des Moines, how do you think the Russians would feel?

The Senate has reduced to a little pittance what General Marshall asked for, $25,000,000 to continue broadcasting the "Voice of America." Cut it to a point where it will be insignificant. Why, if I were President, I would spend a billion dollars a year in spreading the American idea all over Russia—a billion dollars or more.

How would you do it? Don't ask me, but don't tell me that the American people, with the ingenuity that has made 140,000,000 think they have body odor, bad breath, falling hair and pink toothbrush can't. Why, you get a couple of thousand of those boys together and they would have the Russian people just standing on their heads over the American way of life.

I would tell them about the lynchings in the South. I would tell them about our city government in Boston. And I would tell them everything. And out of the residuum of it all, they would get the picture that we all see of our great country with all of its faults and shortcomings. But, it is entirely free and it has more things to offer and more things for its citizens to do and to have, and to enjoy than any other country in the world. That is the way to win wars. That is the way to retire Uncle Joe, and not to Independence, Mo., either.

Decay of Family Life

My third concern—the first two I am sure you will share in worrying about—is even more fundamental to we people in America. It is the decay of the family as the center of life. Now, I was brought up in a large family, and I believe in a family life. I believe you derive more, for strength, for guidance, more ability to stand the shocks that come as you grow older, from a strong family.

It isn't the only way of life, but

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How Things Look to a Yankee Banker

(Continued from page 33)
it is the way that the Christian democracies have conceived as the best way, and I think it has worked marvelously in America. But it is decaying—I shouldn't be saying this, not being married—but it is decaying.

Divorces have increased enormously. Two out of every five marriages now end in divorce. What kind of business could you gentlemen conduct if two out of every five contracts you made had to go to court and be litigated? But it isn't that. That is only the form. It is the scars that divorce leaves. The embitterment and the emptiness that comes as a result of this. Seriously, this is a very important thing. It is fundamental to our Christian democracy, and you don't have to talk like this in church just to make it so. You ought to talk about it and think about it everywhere because you can't conduct the free democracy that we love if you destroy the family as its center. You will have a new kind of a system to live under if you do.

It takes something so atrocious and so scandalous as the Lippy Durocher and Larraine Day affair to bring this out. Even the American people couldn't swallow that and they had to revolt against it. It takes something like that to make us realize how swiftly we are sweeping down the hill as the family as the center of our strength. It is our responsibility to fix it up here in America. It is not the responsibility of England or the responsibility of Russia.

Loss of Urge to Produce

And my fourth and last point—again a domestic and basic concern—is the loss of the incessant urge to produce in the United States. What made America the greatest and the most powerful and the best county in the world? It was because they were producers. They wanted to work hard and produce things. And it drove them in their covered wagons across the plains and over the mountains.

Only by producing can you be strong and utilize your capabilities and be rich. If it is wealth you want, that is the way. Well, we have lost a great measure of that in the United States. We led the whole world in 1946 in work stoppages—a proud honor. In 1946 4,600,000 workers were involved in work stoppages. And they lost 116,000,000 work hours. That is an awful lot of work and production that might have been accomplished. And they don't seem to care anymore.

Many of you have seen the results of the poll which Elmer Roper conducted last February. He asked factory workers this question: "Do you feel personally, if you work harder on your job than the others around you, that it will pay off in promotion or advancement or will it make no difference?"

Well, 49.3% of the people employed in factories said it wouldn't make any difference at all whether they worked harder. Why work hard? That is one of the by-products of our union system. They don't want people working hard and pushing one above the other. Everybody is a counter. He isn't a man anymore. That is also the way to serfdom. There is no question about that.

Last Sunday I spoke to a rather different audience, the Institute of Social Workers. And I was calling attention to some figures that our little State of Massachusetts had about the number of people who were being supported in whole or in part by public funds.

We have 1,500,000 at work producing income in the Commonwealth of Massachusetts. And in this statement it says that we have 803,000 who are not engaged in producing income. That is quite a burden, isn't it, for 1,500,000 to carry 803,000.

Well, the only difficulty with it was that some of the people I was making reference to were on the payrolls of certain states as social workers and so forth. And the people at that meeting weren't drones. When I got through talking they were hornets.

But, it is a significant thing, is it not, when we are talking of the desire to work and to produce, that in the month of January, 1947, when we were nearing the highest number of people engaged gainfully in the United States in our history, that we should be paying unemployment insurance to 116,755 just in this little bit of an old state—116,755 people getting unemployment insurance!

The thing that was going to take up the slack—at least that is the way I understood it—is hard times. I don't know how many of you come from states where people still work hard. But we have got a law here now. The bankers aren't allowed to work more than five days a week. We are so precious they have to save us for the future so we have a five-day week in the banks now. That is symbolic of something. It sure is. I would like to read what Thomas Edison said about the eight-hour day when the old man was 73 years old. Certainly few people have contributed so much through individual hard work to the American people as he did. And he said, "I am glad the eight-hour day had not been invented when I was a young man. If my life had been made up of eight-hour days I do not believe I would have accomplished very much. This country would not have amounted to as much as it does if the young men of 50 years ago had been afraid they might earn more than they were being paid."

But, they don't think that way now. It is all on the other side. And what I say—whether it is the political leaders, the labor leaders, or whoever it is—there isn't any such thing as the East India rope trick, and you cannot get up there on top and stay there on top of a rope in this country unless you work like hell to do it!

So, I say that the thing for us

Investment Traders Association Of Philadelphia


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Charles J. Brennan


Wallace H. Runyan


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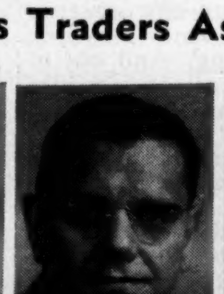
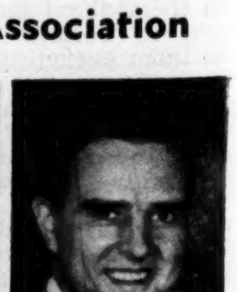
Elected: September 6, 1946; Took Office: September 6, 1946; Term Expires: September 12, 1947.

Pittsburgh Securities Traders Association


George S. Lestrange


William G. Simpson


Earl E. Sweitzer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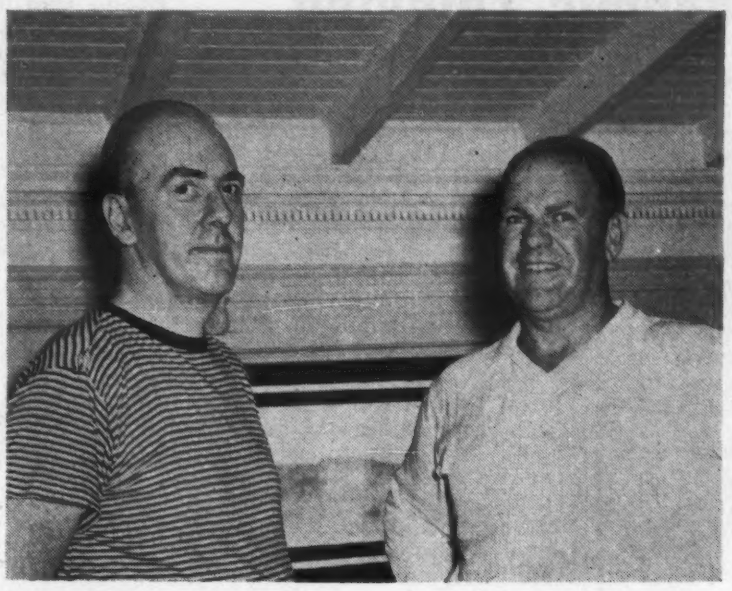
Elected: May 2, 1947; Took Office: June 1, 1947; Term Expires: May 30, 1948.

William D. O'Connor, *Fitzgerald & Co.*, New York City; Lee Hallett, *Draper, Sears & Co.*, Boston, Mass.



Jim Duffy, *Paine, Webber, Jackson & Curtis*, Boston; Herb Blizzard, *Hess, Blizzard & Co.*, Philadelphia

Marguerite Campbell, *A. C. Wood & Co.*, Philadelphia; Mr. and Mrs. Lawrence Connell, *Wellington Fund*, Boston

to do is to look around and know the facts. Look them in the face and tell them, the American people, the truth and not feed them these pious platitudes. Some of you, as I have, probably have that wonderful little book "Oh, Yeah!" in your files which was published after the last crash in 1929 and 1930. And every once in a while I like to bring out that little red book and read what some of those great men said in 1928 and 1929. You wouldn't believe it. But some of the people today talk just about the same.

We have got a new pattern of democracy or a new economic area, or some such thing, and nobody knows what it means. But it sounds awfully good. Well, I think we ought to get out "Oh, Yeah!" and read it once a week and keep our feet on the ground.

Now, you will think that the Old Colony is selling stocks from what I have said, and we are going to buy nothing but municipal bonds. You remember in August, 1929, when the then Secretary of the Treasury, Mr. Andrew Mellon sailed to Europe—do you remember how things looked in August, 1929? Electric Bond and Share going up 10 points every day? Someone said to Mr. Mellon, "How do you think the market looks?" Mr. Mellon in his quiet, shy little voice said, "I think it is a good time to buy bonds."

Well, of course, they practically murdered him. Buy bonds? Why this man is destroying this dream of America—this great thing we have got here. Telephone is going to be split, four for one, and "I know a man whose brother-in-law is married to the President of Bond and Share. It's a cinch, buy it and put it away and forget it."

Well, I think if we had a few more boys like Andrew Mellon around to talk to the American people today it would be a mighty good thing.

Now, I don't want you to go away from here thinking that I am discouraged about America. I am not. It is because I believe in America that I want to have the facts all told to the American people, and not have them fed a lot of things that I will not mention in front of this charming young woman (stenographer taking down speech). Lincoln was right when he said that this was the last best hope on earth.

When I was Chest President (Community Chest) I went all over the United States, as many of you do, and I saw many of the American people at their best. They are perfectly wonderful people, and there is nothing that can stop them. But, you have got to tell them the facts. Of course they will make mistakes if they don't know all the facts, but when they know them they will act, and as free people they will act right. And the whole world has learned twice in these last 20 years that when America acts, nothing stands in her way!

A Call for Balanced Economic Thinking

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could be sustained for several years could be materially higher than prewar normal. Population growth, the long-term trend of improved standard of living, the huge credit base and the commercialization of the new processes and products developed since 1940 would all seem to lend great assurance to this probability.

Exports have also been a prop. Recently accounting for 11% of our gross national product, they are as much as 50% higher than we have any right to expect on a normal basis. Although the time factor will hinge strongly on international political developments yet to come, somewhere in the future our structure will feel the effects of reduced exports.

Then, too, we are all conscious of maladjustments within the price and wage structure. Primarily due to prices, the Department of Commerce calculates that the American people are spending 41% more in eating and drinking places, 39% more in food stores and 33% more for women's apparel than would normally be expected with recent levels of disposable income. Meanwhile we are spending 51% less than normal expectancy for motor vehicles, 30% less at the filling stations, 11% less for lumber and building materials and 9% less for house furnishings. Somewhere along the line these wide distortions from normal will have to be adjusted and probably the major adjustment will ultimately be found in food prices.

And within the wage structure there are some pretty bad distortions. The Department of Labor recently released some interesting figures and unfortunately the publicity and radio comment missed the most important point. The publicity glossed over the fact that the *real purchasing power of factory workers (with two dependents) in May was 27% higher than it was in 1939, after adjustment for higher cost of living and higher taxes.* Nor was any mention made of the fact that *several million more workers have been added to the payroll list since 1939.* Therefore, there has been an exceedingly sharp increase in the total of *real* purchasing power of factory workers as a class. It is most unfortunate that these facts have not received the publicity that should have been accorded to them; the lack of it promotes a very bad distortion in economic and social thinking.

In this connection the real maladjustment is to be found in the fact that *real* purchasing power of fixed incomes and of savings and borrowings has suffered a sharp decline as a result of the higher prices that have been caused by the higher manufacturing and labor costs. Somewhere along the line there will probably have to be some correction of this maladjustment.

As we survey these fundamental distortions, it would appear that we will have to face a period of price (and possibly wage) adjustment as well as some decline in the level of business activity to a more normal postwar rate.

It is this adjustment period that has been paramount in the minds of economists, investors and businessmen ever since VJ-Day and the presumption almost invariably has been that the adjustment would be rough and difficult. Possibly so; curtailed export demand for food together with very large crops could bring a sharp setback in farm and food prices and it would be temporarily uncomfortable if this correction took place simultaneously with over-produced conditions in some of the industrial lines. But not necessarily so; there is no credit stringency and deferred demands are still present in enough lines to permit adjustments in one factor without affecting the balance of the economy. Already the problem of disposing of poor quality wartime materials and government surplus materials has been solved without serious difficulty, whereas it had been feared nine months ago that this problem would cause trouble. Just how rough and difficult a correction period might be will depend very largely on the extent of the maladjustments that exist at the time when some factor starts a downward trend in either commodity prices or business activity. At this particular moment, it is unlikely that anything very severe would materialize for the simple reason that the outlook for so many of our key industries is still very strong.

Foreign Situation

So much publicity is being given to the economic crisis in England and the shortage of dollars available to foreign countries that it is quite unnecessary to go into this subject in detail. Rather, it might be well to remember that it was broadly recognized several months ago that England's position was going to be difficult when the exchange convertibility restrictions were lifted on July 15.

All of the recent seemingly untoward foreign developments suggest strongly a conformance to a broad pattern wherein the world is dividing into two ideological segments, one headed by Russia and the other headed by the United States. An integral part of this pattern must necessarily be educating the American people into a realization that world leadership carries with it some very serious responsibilities. At any rate, the trend seems to be in the direction of our lending very sizable sums of money to foreign nations for some time to come.

There may be temporary inter-

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Memphis Security Traders Association

W. G. Leftwich | Frank D. Frederic | Early F. Mitchell | Edward F. Thompson

President: William Groom Leftwich, *Leftwich & Ross.*

Vice-President: Frank D. Frederic, *Equitable Securities Corp.*

Secretary: Early F. Mitchell, *First National Bank of Memphis.*

Treasurer: Edward F. Thompson, *Union Planters National Bank.*

National Committeeman: Early F. Mitchell, *First National Bank of Memphis.*

Elected: January 17, 1947; Took Office: January 17, 1947; Term Expires: January 16, 1948.

Nashville Security Traders Association

Matthew B. Pilcher | Herbert Pettey | Buford G. Wilson

President: Matthew B. Pilcher, *Mid South Securities Corp.*

Vice-President: Herbert Pettey, *Equitable Securities Corp.*

Secretary and Treasurer: Buford G. Wilson, *Jack M. Bass & Co.*

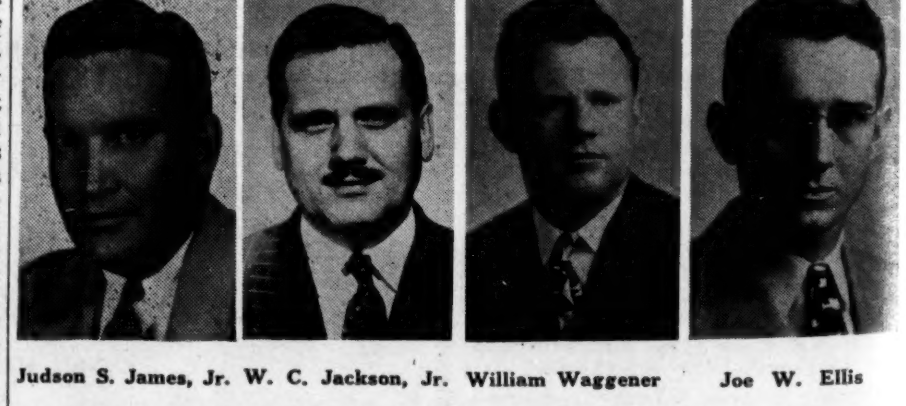
Directors: D. W. Wiley, *Wiley Bros., Inc.;* Thomas H. Temple, *Thomas H. Temple Co.*

Delegate: Paul O. Frederick, *Commerce Union Bank.*

Alternate: Jo Gibson, Jr., *Webster & Gibson.*

Elected: December 27, 1946; Took Office: January 1, 1947; Term Expires: December 31, 1947.

Dallas Bond Club



Judson S. James, Jr. | W. C. Jackson, Jr. | William Waggener | Joe W. Ellis

President: Judson S. James, Jr., *James & Stayart.*

Vice-President: W. C. Jackson, Jr., *First Southwest Co.*

Secretary: William Waggener, *Walker, Austin & Waggener.*

Treasurer: Joe W. Ellis, *R. A. Underwood & Co.*

Directors: Charles B. Carothers, *Carothers & Co.;* O. V. Cecil, *R. S. Hudson & Co.;* C. Alfred Bailey, *Dittmar & Co.*

National Committeemen: John B. Cornell, Jr., *Dallas Rupe & Son;* Landon A. Freear, *William N. Edwards & Co.*, Ft. Worth; James F. Jacques, *First Southwest Co.;* John L. Canavan, *Rauscher, Pierce & Co.*

Elected: January 7, 1947; Took Office: January 7, 1947; Term Expires: December 31, 1947.

Mr. and Mrs. Lee R. Staib, *Geo. Eustis & Co.*, Cincinnati; Mrs. and Mr. Walter Saunders, *Dominion Securities Corp.*, New York City

Ted Plumridge, *J. Arthur Warner & Co.*, New York; J. Arthur Warner, *J. Arthur Warner & Co.*, New York; Ed Welch, *Sincere & Co.*, Chicago

In Attendance at The Convention

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WHITTEMORE, DONALD H.
D. H. Whittemore & Co., Boston, Mass.

WILLIAMS, CARROLL W.
Laird, Bissell & Meeds, New York

WILLIAMS, T. EDWARD
Hooper-Kimball, Inc., Boston, Mass.

WILLIAMS, NANETE
New York

WINSLOW, JR., ANDREW N.
Perrin, West & Winslow, Inc., Boston, Mass.

WOELFEL, ERNEST J.
F. S. Moseley & Co., Boston, Mass.

***WOGLOM, ALBERT G.**
A. G. Woglom & Co., Boston, Mass.

WOLL, ALBERT J. T.
E. M. Newton & Co., Boston, Mass.

***WOLLEY, SUMNER R.**
Coffin & Burr, Inc., Boston, Mass.

***WREN, LAWRENCE**
Allen & Co., New York

*Denotes Mr. and Mrs.

WRIGHT, FREDERICK J.
F. J. Wright & Co., Boston, Mass.

***YARROW, PAUL**
Clement, Curtis & Co., Chicago, Ill.

***ZIES, CARL W.**
V. D. Anderson & Co., Cleveland, Ohio

ZINGRAF, CHARLES M.
Laurence M. Marks & Co., New York

Wm. Perry Brown, *Newman, Brown & Co.*, New Orleans, La.; Geo. H. Earnest, *Fewel & Co.*, Los Angeles; Jerry Tegeler, *Dempsey, Tegeler & Co.*, St. Louis; Graham Walker, *National Quotation Bureau*, New York City

Jim Cleaver, *Goodbody & Co.*, New York City; Mrs. Robert H. Warren, Boston; Ed Welch, *Sincere & Co.*, Chicago; Mr. and Mrs. Harry Madary, *Geyer & Co., Inc.*, Boston

Bond Traders Club of Seattle

Andrew A. Jordan

Robert Moore

F. Kenneth Easter

Waldemar L. Stein

President: Andrew A. Jordan, *Jordan & Company.*
Vice-President: Robert Moore, *Pacific Northwest* Co.
Secretary: F. Kenneth Easter, *F. K. Easter & Co.*
Treasurer: Waldemar L. Stein, *Bramhall & Stein.*
National Committeeman: Donald A. Meyer, *Foster & Marshall.*
Alternate: Hugh R. Schlicting, *Wm. P. Harper & Son & Co.*
Elected: October 9, 1946; Took Office: October 9, 1946; Term Expires: December 31, 1947.

A Call for Balanced Economic Thinking

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ruptions in our high level of exports but the basic fact remains that this country continues to be the only source of supply for a foreign demand that may take years to fulfill.

Much has been said about the increase in breakeven points that has taken place in many industries since before the war. The point is well taken and should not be minimized—nor should it be exaggerated. For the past 12 months our whole economy has been strained by operating at a rate which is really in excess of efficient productive capacity. The raw materials flow has been erratic due to the tight demand situation; it is a costly proposition to shut down an automobile plant when steel sheets become unavailable. The fact that the labor supply is really insufficient to meet demand has rather naturally created an independent attitude on the part of the worker which is not conducive to efficient production. The strong seller's market has unduly widened the profit margins of contractors, wholesalers and jobbers all along the line. It is probably safe to say that the economy would operate more efficiently at some 10% or 15% below current levels and this fact should be given consideration in calculating breakeven points.

Then, again, we usually think of breakeven points in relation to some prewar level of business activity. The long-term trends of population growth and standard of living are steadily increasing the basic requirements of the nation on a volume basis. Prewar highs in activity may well be postwar lows. Naturally this factor should be given consideration in appraising the hazards of higher breakeven points.

We will also find that the breakeven points will not stay put. There should be a steady trend toward improved efficiency and in many industries higher prices have tended to offset higher costs.

But let us not minimize the importance of breakeven points either. There is warranted concern about the breakeven point of the railroads, for example, and there should be concern about any industry wherein the revenue side is rendered inflexible by government control or is rendered vulnerable because of unusually competitive conditions.

Money and Credit

This factor is one that is always deserving of consideration because of its effect on business conditions and security prices. At the present time there seems to be no need to go into the matter in detail because there is ample evidence that the credit base has been enlarged to a point where it is much more than ample to take care of business volume and prices at a very high level. Any argument of all of the pros and cons must still end up with the observation that interest rates are low and, as with any other commodity, the price is a pretty good clue as to the balance of supply and demand factors.

Stock Prices

One of the most astounding aspects of current discussions about

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Bond Club of Houston

Claude T. Crockett

R. R. Rowles

President: Claude T. Crockett, *Moroney, Beissner & Co.*
Vice-President: Russell R. Rowles, *Rowles & Co.*
Secretary: Neill T. Masterson, *Chas. B. White & Co.*

Mrs. Ora M. Ferguson, *Merrill Lynch, Pierce, Fenner & Beane*, Louisville, Ky.; Mrs. John Maguire, Boston; Mrs. Joseph Gannon, Boston

John E. Graham, *Brainard, Judd & Co.*, Hartford, Conn.; Allison M. Berry, *Robert Garrett & Sons*, Baltimore, Md.; R. Emmet Bradley, *Mackubin, Legg & Co.*, Baltimore

T. Edmund Williams, *Hooper, Kimball & Co.*, Boston; Jesse A. Sanders, *Sanders & Newsom*, Dallas; Ernest E. Blum, *Brush, Slocumb & Co.*, San Francisco

A Call for Balanced Economic Thinking

(Continued from page 38)

the economic situation and investment policies is the tendency to ignore the level of stock prices. Very little is heard these days about the amount of inflation that has been frozen into our economic structure or about the understatement of book values when consideration is given to replacement costs. Nor do we hear much about the presently unusually low relationship of stock prices to earnings prospects, nor the attractive spread between stock yields and bond yields. These points have always been worthy of consideration in any well-balanced judgment of investment values and there is no reason why the present should be any exception. Many issues are selling in the low end of an historical price-earnings ratio pattern, even when the current ratio was figured out on the basis of recession earnings.

Conclusion

After this brief review of the factors that normally influence economic activity, earnings and stock prices, let us step back again and look at the broad perspective. It is not all unfavorable and it is not all favorable; neither side is noticeably preponderant.

Among the favorable forces are the indications that we have not yet exhausted the urgent demand for automobiles, homes and several other important lines of consumer's durable goods. Nor do we have any evidence that the producing facilities of the country have been over-expanded. The whole structure is supported by a credit base that is ample for even a higher level of activity. It has been demonstrated that corporations have very high earning power when the volume is rolling. Stock prices are around the lowest price-earnings ratio on record and are in the lower part of an historical price-earnings ratio pattern even when calculated on estimated recession earnings. The stock yield-bond yield relationship is favorable.

On the unfavorable side we observe the uncertainties of the international political sphere from which we get recurrent shocks to confidence. We also have maladjustments within our economic structure in the form of disproportionate price and wage increases; too high a proportion of disposable income is going into food and clothing, leaving a disproportionately small balance for the purchase of other things. We cannot expect that the contribution of capital expenditures and exports to the income stream can persist at such high levels forever, even though the demands both here and abroad are very substantial.

It seems to this writer there is enough knowledge available in a consideration of all of these forces to permit intelligent financial and business planning. Each individual's problem may have to be more heavily weighted for some of these factors than for others, but broadly speaking, it seems advisable to stay away from the extremes of optimistic or pessimistic thinking—at least, for the time being.

Tom O'Rourke, *Stroud & Co., Inc.*, Philadelphia; Tim Murphy, *Chace, Whiteside, Warren & Sears, Inc.*, Boston; Jim Musson, *B. J. Van Ingen & Co.*, New York City

William Skinner, Jr., *Walter J. Connolly & Co.*, Boston; Albert G. Woglom, *A. G. Woglom & Co.*, Boston; John L. Daley, *E. H. Rollins & Sons*, Boston

Financing Public Sanitation Projects

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of water, and the general welfare services. Commissions thus formed become independent enterprises. Naturally it will cooperate with other departments of the local governments but primarily will stand on its own feet, particularly pertaining to financing its program.

It is in a position to float its own bonds on a revenue basis, which is a comparatively new method of financing but is as sound as the so-called "general obligation" bonds. A revenue bond does not have the drawback of being added to a community's outstanding bonded indebtedness inasmuch as it gives no lien on property, is not the direct responsibility of any community or the Commission, but its soundness is based on the Commission's ability to serve an area, charge and collect fees from the residents and industries for services performed.

The Hampton Roads Sanitation Commission issued $6½ million in such bonds, purely on a revenue basis. The bond issue was guaranteed by no one, the Commission does not have the right to levy taxes and no mortgage was given to the bondholders on the Commission's facilities. In spite of the lack of these liens, the bonds sold at a rate comparable with the best municipal bonds. The only real security behind the bonds is the Commission's right by law to deny a delinquent the use of water if he refuses to pay his sewage bill.

Federal Aid

This brings me to the subject which you gentlemen are probably more interested in than the technical aspects of any anti-pollution program. Recently I appeared before the Committee on Public Works both of the Senate and the House of Representatives of the Congress of the United States. The purpose of my appearance was to endorse in full a program of anti-pollution for the entire United States as embodied in the respective bills of these two Houses.

Most of the bills carried a similar provision calling upon the government to spend some $100 million in grants per year for a period of 10 years in order to get these programs started locally.

While endorsing the idea, my contribution to the program was to advocate that in lieu of the granting of $100 millions, the government lend its credit to local Commissions and compacts for approximately one-third of the cost of the planning and construction. My position was that a formula could be worked out with Federal aid not calling for great expenditures of Federal moneys, which in this economy-minded period would never pass. But in so far as the bill provided for Federal aid, I was specific in advocating loans rather than grants as a basis of financing the programs.

In so far as the present language provides for aid, in the form of grants-in-aid, loans, or both, the bills are good, as there is considerable merit for such a basis of financing. The elimination of pollution is unique among major municipal improvements and will require such stimulation in the

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Mr. & Mrs. Geo. J. Elder, *Mercier, McDowell & Dolphyn*, Detroit; Miss Gay Wade, their niece

Mr. and Mrs. T. M. Wakeley, *A. C. Allyn & Co.*, Chicago, and Miss Natalie Wakeley

Jack Roney, *Wm. C. Roney & Co.*, Detroit, Mich.; Mrs. and Mr. Don W. Miller, *McDonald-Moore & Co.*, Detroit

Financing Public Sanitation Projects

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form of Federal aid. This is due to the fact that pollution abatement is affected by two conditions. First, treatment works normally do not benefit the persons who contribute the wastes but who are expected to bear the costs of treating it. The downstream users of water are the ones benefited, and the upstream users are the ones dumping. Second, the benefits of treatment are intangible and tax payers are reluctant to undertake costly treatment works when the effects are not as tangible and evident as those of other public works.

Revenue Bonds

I anticipate, however, that by and large, the cost of the treatment works will be financed through the issuance of revenue bonds. Therefore, with respect to projects that are to be financed through revenue bonds, I recommended that serious consideration be given to revising the present language of the bills so as to provide that the Federal Government may, in connection with each approved project, make a loan of not to exceed one-third of the estimated cost thereof, the loan to bear interest at a rate not to exceed two percentum (2%) per annum, and to be secured by a second lien on the revenues to be derived from the operation of the approved project. The bonds representing the balance of the costs of the project to be secured by a first lien on the revenues of such project and be sold to private investors.

Such a method of financing should be beneficial to the public bodies and would be more economical to the Federal Government than an outright grant method. By having the government accept second lien revenue bonds for one-third of the costs of a project, the financing of the re-

(Continued on page 42)

Ed Hormel, *White, Weld & Co.*, Boston; Ed Haverstick, *Smith, Moore & Co.*, St. Louis; Clarence J. Maender, *G. H. Walker & Co.*, St. Louis; R. Emmet Byrne, *Dempsey-Tegeler & Co.*, St. Louis

Samuel Varnedoe, *Varnedoe, Chisholm & Co.*, Savannah, Ga.; Larry Wren, *Allen & Co.*, New York City; Gus Levy, *Goldman, Sachs & Co.*, New York City; Ted Plumridge, *J. Arthur Warner & Co.*, New York City

Financing Public Sanitation Projects

(Continued from page 41)

maining cost of the project would be facilitated, and would be accomplished on more advantageous terms than otherwise. Savings in interest will be effected and in many instances the particular public bodies would possibly receive higher bids for their bonds by reason of the fact that the Federal Government was agreeable to purchasing second lien bonds on the same project. In my Senate testimony I cited examples in the lowering of interest rates and demonstrated where local bodies could expect a reduction in interest costs from 25% to 33⅓%, and that through these savings in the lowering of interest rates these local bodies would have sufficient funds with which to retire a government loan.

If, however, due to local laws or other reasons, revenue bonds could not be issued by a municipality, or district, to finance the costs of treatment facilities, and tax bonds or public assessment bonds must be issued, a government loan in an amount not exceeding one-third of the estimated cost of the project might be made. The security for such a loan might or might not be subordinated to the security of the bonds issued to cover the other two-thirds of the cost, depending upon whether such subordination would be possible under the local laws. I understand, however, that only a few States do *not* have so-called "Revenue Laws" on their books, but such laws could be easily passed as revenue bond financing has become a very popular form for financing of water and sewage facilities.

Most of you investment bankers look upon a revenue bond as almost as sound as a general tax bond. In fact, you classify them under the general term of "municipals." The reason for their strength is that the record of collections for water and sewage is better than tax collections. In my area the percentage of delinquents for the payment of water bills is less than one-fourth of 1% for the area we serve.

The Hampton Roads Sanitation Commission was made possible by this method of financing. Instead of borrowing from the government one-third of the cost of the program, the Commission entered into a purchase contract in which the Commission agreed to pay for all of the sewage facilities built by the government in the Hampton Roads area for the disposal of sewage from approximately 300,000 military personnel. Payments are to be made over a period of approximately 25 years, which is the length of the primary financing through the revenue bonds. In this agreement the government agreed to take a secondary position behind the primary bonds.

I have been called into consultation by several local areas who wish to get a sewage program started. Some of these areas are in very poor financial condition, but in no case would they need a grant and in all cases could finance privately with a loan by the government on the terms outlined above.

In conclusion, revenue financing opens one of the greatest fields in municipal financing yet offered you people, especially for water and sewer systems, and I believe that you will agree with me that the security is just as good as the general obligation bond carrying with it the right of taxation.

Geo. Geyer, *Geyer & Co., Inc.*, New York City; Wm. J. Mericka, *Wm. J. Mericka & Co.*, Cleveland; George Collins, *Geyer & Co., Inc.*, New York City

Leo J. Doyle, *Doyle, O'Connor & Co.*, Chicago; Mrs. and Mr. Joseph G. Petersen, *Eckhardt, Petersen & Co.*, St. Louis

Mr. and Mrs. Clarence J. Maender, *G. H. Walker & Co.*, St. Louis; Mrs. and Mr. J. F. Jacques, *First Southwest Co.*, Dallas, Tex.

Security Prices and Inflation

(Continued from page 8)

In February, 1929, stock prices as a whole established their peak at 548% of pre-war prices, but this was not as high as the wholesale commodity price index, which, while it was rapidly falling, still stood above stock prices. Germany, on the other hand, was in no shape to participate in this speculative boom of the late '20s, and her stock prices fluctuated closely around the 100 level from the time of stabilization on into the '30s.

II.

Effect of Inflation on Different Groups of Stocks

While bonds as a group proved to be poor investments as each inflation ran its course on the Continent, it is impossible to similarly dismiss stocks in one fell swoop. The latter left in their wake widely diversified behavior patterns, profoundly affected as they were by the dominant characteristics of the individual industries or service organizations.

Banking establishments, with money as their stock in trade and their policies dominated by the national treasuries, were extremely hard hit by inflation everywhere. Afraid of money, people withdrew their deposits to purchase tangibles. Time deposits declined almost to nil, German savings banks losing as much as 99.9% of their deposits. Demand deposits, despite the increased amount of money and its greater velocity of circulation, failed to grow in like measure. While government needs carried long-term interest rates upward, short-term rates were slow to rise, not really gaining momentum until the various inflations had reached greatly magnified proportions. In France these rates did not proceed on their inevitable course until 1926, the very year in which stabilization took place. Meanwhile costs were being swept along with the tide of inflation, and had to be met out of capital, thus diluting stockholders' equities. In cognizance of these handicaps, French bank stocks in 1926 had reached an average price level of only 42% above 1913.

Public utilities and railroads, too, suffered severely during inflation, the difficulty in both instances being the regulatory aspect of keeping rates fixed over long periods of time. In Germany the utilities were mostly owned by municipalities and, under the circumstances, leave little room for analysis alongside of stock issues of private concerns. Nevertheless, the identical problem of tardy rate revisions brought increasing hardship to the remaining private utilities in Germany as well as to the more sizable proportion of them in France. Though Germany did not long delay the use of a sliding scale device of automatically adjusting utility rates upward with other prices, rate revisions were still slow and cumbersome. This, in the face of increased costs being borne by the utilities, placed them in a decidedly disadvantageous position. Conditions in France were very similar to those in Germany, except for two facts. First, the use of the sliding scale method was delayed until 1922, utility stock prices during all that time having hovered consistently below the 1913 level. Secondly, after a sliding scale based upon wage rates and coal prices had been devised, it was regularly applied (quarterly till 1928, and semi-annually thereafter), so that rate revisions from then on were not so much delayed as to adversely affect the business. As a result, the industry began to flourish and ex-

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F. Brittain Kennedy, *F. Brittain Kennedy & Co.*, Boston; Robert Cutler, President of *Old Colony Trust Co.*; Boston; Ludwell A. Strader, *Scott, Horner & Mason*, Lynchburg, Va.

John W. Bunn, *Stifel, Nicolaus & Co.*, St. Louis; Henry Oetjen, *McGinnis, Bampton & Sellger*, New York City; Herbert Pettey, *Equitable Securities Corp.*, Nashville, Tenn.; Irving Greene, *Greene & Co.*, New York City

Security Prices and Inflation

(Continued from page 43)

pansion set in, with a clearcut milestone being recorded in utility stocks by way of an immediate jump above the 1913 level. From 1922 to 1923 the average price of gas utility stocks recovered almost over night from 72% to 109%, and electric utility stocks from 96 to 143%, and this was only a meager start of a long trend upward in utility stock prices.

Due to similar causes, railroads left an even worse inflation record. In France, for instance, agreements had been drawn up before the War between the railroads and the government, whereby the latter guaranteed a fixed return on the outstanding rail securities. Meanwhile, rates were kept down, and deficits were paid out of the National Treasury. Until 1927 no rate increases other than those necessary to meet minimum interest and dividend requirements were authorized, with the result that until that time rail stocks sold steadily below the 1913 price level, ending up at an average of 72% in 1926. Thereafter freight rates began to rise, but never caught up with other prices. This was reflected in the stock prices which at the height of the speculative period, reached an average of only 133% of the 1913 prices.

While banks, public utilities, and railroads were seriously influenced by government policies, general industrial enterprises of a less "public" nature were more free to shift for themselves in an effort to overcome the inflationary hazards as best they could.

Unhampered by restrictive legislation, mines were in a good position to forge ahead. Though some lagged behind somewhat due to war damages suffered, as in northern France near the Belgian border, nevertheless, stocks of good, active mining companies did exceptionally well. Not only did French coal and iron mine stocks leave a good record, but so did German mining stocks, including those of potash mines. Austrian mining stocks did so well, in fact, that not only could investment values be maintained, but the opportunity presented itself for a

Barney Bernard, *Schirmer, Atherton & Co.*, Boston; Ralph Carr, *Ralph F. Carr & Co., Inc.*, Boston; John Gardner, *Schirmer, Atherton & Co.*, Boston

Ed Jones, *Edward D. Jones & Co.*, St. Louis; Speed Hughes, *J. Arthur Warner & Co.*, Boston, Mass.

Mr. and Mrs. Roy Treviñe, *Harriman Ripley & Co.*, Philadelphia; Mrs. Leo Newman, Boston; Don Sherwood, *Comstock & Co.*, Chicago

doubling of value, or for a profit of better than 100%. Credit for this remarkable showing, however, is not solely due to government noninterference. On the contrary, the mining business itself presents inherent characteristics operating entirely in its favor during an inflationary period. Most important of these is the lack of plant investment, with a mining company's capital sunk mostly in minerals still harbored in the ground. Capital expenditures, therefore, prove no stumbling block during an inflation.

It is this very point, so strong in mining companies, that is the weakest link in the metallurgical business. The firms in the latter industry were highly dependent upon periodic financing to increase their capitalization from time to time. Yet increases in production were not nearly commensurate with capital additions, while the ever rising interest rates on new funded debt became more and more burdensome. Capital was raised, too, by means of new stock issues, but companies found it difficult to pay sufficient dividends in keeping with the times, so that even by 1929, three years after stabilization in France, stock dividends were still far from gold parity with 1913. As a consequence, stabilization saw French iron and steel works stocks selling at an average price of only 95% (1913=100) for the year 1926.

Much of this demand for new capital came as a result of the war, with the subsequent need for rebuilding ruined plants. However, the heavy iron and steel works of France were not merely handicapped by the situation in the capital market. They suffered, too, from competition at the hands of Germany and Belgium. Conditions were somewhat improved for the French steel works when a European steel cartel was formed in 1926. Competition was then not nearly so damaging, as France was allocated a fair share of the business available. In response to this development, the industry's stock prices rose, but capital considerations kept the securities from reaching a really good investment status throughout the inflation.

In line with iron and steel, other heavy goods industries did quite as poorly. Shipyards, in particular, fared badly. French shipyards offered the worst possible investment during the inflation in that country, with the average stock price in 1926 being only 34% of the 1913 level.

The need for new financing proved a dreadful blow to not only the steel industry, but also the up-and-coming automobile industry in France. While still in the early developmental stage, the industry

(Continued on page 46)

Joseph M. Kelly, *J. Arthur Warner & Co.*, New York City; J. Wilmer Butler, *Baker, Watts & Co.*, Baltimore; Barney Nieman, *Carl Marks & Co.*, New York City

Alfred Crampton, *Weeden & Co.*, Boston; Lawrence S. Pulliam, *Weeden & Co.*, Los Angeles; Frank Weeden, *Weeden & Co.*, San Francisco; Stephen C. Turner *Turner-Poindexter & Co.*, Los Angeles

Security Prices and Inflation

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was sorely in need of new capital, and this, being available only at a high price, reacted most unfavorably on automotive stocks. With the inflation having taken its full course, the stock of a single large automotive company sold, on the last day of 1926, at only 96% of the 1913 price, while the dividend on this stock had advanced to no more than 156% of that paid in 1913.

In France the chemical industry, too, was new at the time, and therefore had the same heavy capital requirements. Nevertheless, it was a promising industry, and people were willing to pay more for chemical stocks than earnings would warrant. Though chemical stocks in France were a fair protection against capital depreciation, they still suffered from low yields due to the need of borrowing at high interest rates. German chemical and dye companies, on the other hand, were more mature and thus less hampered by capital requirements. Some had already built up a good foreign market for themselves, and this paid off particularly well during the wild inflationary excesses taking place in Germany. Export sales were made in foreign currency, the latter generally being more stable than the domestic paper money. As a result, some chemical stocks more than maintained their gold investment value by the end of the inflation, and their yields, too, proved satisfactory. Meanwhile, those chemical companies depending solely on the home market fared considerably worse than those with an export market to draw upon.

No more complete contrast could be found than between the French automobile and chemical industries on the one hand and the French textile industry on the other. The latter was already well-established, mature, and no longer in need of continuous capital additions at high interest rates. The industry further served an excellent market, both domestic and foreign. The domestic market was especially enhanced during the inflationary years, due to the fact that people of smaller means, looking for tangibles to hoard, turned in great measure to textiles. These proved ideal for this purpose, inasmuch as they are a compact and durable commodity suitable for storage, and they are necessities of life, thus giving value to the owner for his own use, as well as offering value in barter exchange common during inflation. With these factors in their favor, textile stocks by 1926 had risen to an aver-

Russ Ergood, *Stroud & Co., Inc.*, Philadelphia; Henry J. Richter, *Scherck, Richter Co.*, St. Louis; Charley Hahn, *Scherck, Richter Co.*, St. Louis

Mr. and Mrs. Louis Gibbs, *Laird, Bissell & Meeds*, New York City

M. Alfred Mack, *Westheimer & Co.*, Cincinnati; Edward Creamer, *Schirmer, Atherton & Co.*, Boston; Carroll W. Williams, *Laird, Bissell & Meeds*, New York City

age of 442% of prewar prices, and continued to climb to 986% as an average for 1929—the very best showing on record in the French inflation for an industry as a group.

Profiting also from the attractive market for tangibles were the fire insurance companies. While home owners began to save this expense as the cost of living rose, commercial enterprises went in for more and more protection against fire losses. To meet the new demand for goods, industry expanded, and insurance policies were written to cover new plants. Furthermore, fire insurance contracts run for short terms, and, as these were rewritten, property values were continually raised as replacement values increased while currency depreciated. This meant, too, that premiums increased, since these are based entirely on the replacement values stated in the contracts. Meanwhile, fire losses did not increase correspondingly, as the public was seized during inflation by a desire to guard the highly valued tangibles.

Fire insurance companies benefited, too, from the basic nature of the business itself. The business consists of writing contracts that guarantee future payments contingent on losses being realized. In order to back up these guarantees, it is necessary for a fire insurance company to build up and maintain capital and surplus in a safe proportion to the value of premiums written. This capital and surplus is invested in securities, and the income from these is generally entirely available to stockholders. With dividends being paid from the earnings on invested capital and surplus, the rise in long-term interest rates during inflation made possible increased yields on fire insurance stocks. Then, too, when conservative policy dictated adding some of these earnings to surplus instead of paying them all out to stockholders, the new surplus again afforded opportunity for more investments at favorable interest rates, the basis for still more attractive dividends in the future. Thus fire insurance company stockholders found not only their capital safeguarded against depreciation, but their income was also well protected against loss of purchasing power. In Italy, for example, the Adriatic Company did not miss a single dividend throughout the inflation, and payments multiplied 10 times in terms of the paper currency by 1929, while the book value had increased more than six and one-half times. This increase in value was considerably more than the increase in the cost of living in Italy, so that holders of fire insurance stocks even improved their position in spite of the inflation. Fire insurance companies in other countries fared similarly well, though in Germany these stocks were at first slow to

(Continued on page 48)

Mr. and Mrs. Paul Yarrow, *Clement, Curtis & Co.*, Chicago; Mike Heaney, *Jos. McManus & Co.*, New York City

Mr. and Mrs. A. W. Marsland, *Wood, Gundy & Co.*, New York City; Mr. and Mrs. Clair S. Hall., Jr., *Clair S. Hall & Co.*, Cincinnati

Security Prices and Inflation

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rise in price. At the height of the inflation in 1923, however, they had caught up and proved an excellent investment.

Casualty insurance companies, too, did nicely during inflation. In France they did particularly well, in view of the new automobile business. As wages increased and people bought the new autos, they wanted also the protection against the accidents that follow in the wake of the establishment of this industry. In addition, casualty insurance companies share with fire insurance companies the advantages of writing short term contracts so that premiums may rise correspondingly as costs increase.

It was the long-term contracts written by life insurance companies that spelled their ruin, together with strict regulations as to prescribed investments. Being required to invest their funds in only gilt-edged securities, life insurance companies found their income dwindling in the face of highly inflated costs of operation. Those companies which made the most of the hedging possibilities existent within the rules came out best, though life insurance companies as a whole were not a desirable inflationary investment.

III.
Securities That Proved the Best Inflation Hedges

As currencies depreciated, it became necessary not merely to invest for the purpose of maintaining income or increasing capital. Instead, the immediate concern came to be the matter of simply maintaining existing values through wise hedging operations. Stocks on an average proved a highly incomplete hedge, with stock prices increasing only one-fifth as much in Germany as wholesale prices, while similar disparities were apparent in other countries having inflated currencies after World War I. However, even on this average stocks proved a partial hedge as compared with the complete loss of value of the German currency. Nevertheless, certain industries offered better hedging possibilities than others, and even within a single industry individual companies presented opportunities of different degrees of security.

In arriving at the most suitable industries, various attributes must be considered, perhaps one of the foremost being freedom from regulation. As the purpose of regu-

Edward L. Kirkpatrick, *Nashville Securities Co.*, Nashville, Tenn.; Joe H. Davis, *First National Bank* of Memphis, Tenn.; Hoyt Purcell, *Martin-Holloway-Purcell*, Kansas City, Mo.

King Waldron, *Grimm & Co.*, New York City; F. H. Welch, *R. S. Dickson & Co.*, New York City; Wm. E. B. Lyon, *R. S. Dickson & Co.*, Charlotte, N. C.

Edward L. Morse, *Boston Safe Deposit & Trust Co.*; Arthur E. Engdahl, *Goldman, Sachs & Co.*, Boston; Geo. M. McCleary, *Florida Securities Company*, St. Petersburg, Fla.

lation is generally to keep costs to the public down despite increased costs to the industry, the earnings of regulated industries are seriously affected so that stock prices are retarded and the owners' equity is diluted.

Highly important, too, is the age of the industry itself. A developing industry is constantly in need of new capital which must be obtained during an inflation despite the high cost, thus not only thrusting a great burden on the earning capacity of the equity shares, but also going to the extent of diluting that equity. To combat inflation, accumulated reserves are a prime requisite, and to achieve a highly liquid position, it is necessary for an industry to be mature and not in need of frittering away needed reserves on development and expansion.

As operating costs rise, reserves can then be drawn upon if need be. During inflation these dwindle to the vanishing point, even in a mature industry and a strong company, so it often becomes necessary to go into debt to meet operating costs. Therefore, a low debt at the outset is a prerequisite for a good inflation hedge, otherwise an increasing debt structure may become topheavy and interest requirements an undue burden.

Nevertheless, exceptions do exist to the general hypothesis that debt is undesirable during inflation. Debt incurred specifically for the purpose of acquiring operating equipment and consequently to be paid off out of operating income stemming from this same equipment, is actually desirable, as it can be repaid currently with the depreciated money.

As reserves are easily dissipated through rising operating costs, it is desirable to avoid companies whose earnings lag appreciably behind cost increases. Wages are among the most rapidly rising cost items during inflation, and it therefore becomes advantageous to invest in companies having a low wage cost. Mounting taxes, too, dig a big hole into cash reserves and reduce liquidity, so that a low tax liability is another advantage contributing toward making a stock a successful inflation hedge.

Not only is the liquid asset position important, but general physical assets are all significant. Companies possessing large mineral resources are in an especially good position, as costs of raw materials have already been incurred at far lower prices, while other types of companies must purchase their raw materials currently at higher and higher prices. Large investments in plant, tools, equipment, and inventories are advantageous; but companies with small manufacturing investments and dependent for income rather upon intangibles such as good will and large advertising and selling campaigns have little to fall back on during inflation, and their securities constitute poor hedges.

Industries needing only a short period for both production and distribution are naturally at an advantage as costs cannot rise appreciably before the product is marketed. If the production and distribution interval is too long, costs rise and when the product is finally sold, it does not realize an amount sufficient to replace the inventory depleted in producing it, insofar as prices are based on actual costs. A similar principle applies also to service companies, which fare infinitely better if they operate on short-term contracts, renewable as inflation progresses on terms more in keeping with actual conditions.

When the going gets too difficult, it may very well become necessary for a business to suspend operations until conditions improve. Those industries best able to close up and pick up again later offer far better hedging opportunities than those which suffer tremendous losses by operating.

Finally, hedging possibilities depend largely upon the type of goods produced or the type of service performed. Companies producing neces-

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Oliver Goshia, *Goshia & Co.*, Toledo, Ohio; Collins Macrea, Jr., *Wulff, Hansen & Co.*, San Francisco; Mrs. Oliver Goshia

Mr. and Mrs. James A. Morrison, *Ballou, Adams & Co.*, Boston; Mr. and Mrs. Louis Lerner, *Lerner, Lerner & Co.*, Boston

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sities and storable goods are generally well off during an inflation, as are those which perform essential services. Production of non-durable necessities continues as these goods require replenishment, and production of durable necessities increases as hoarding sets in. The desire to protect these hoards also favors companies offering services such as insurance against fire losses.

While these are the requirements for an industry as a whole, it is necessary also to scrutinize the various companies within a desirable industry in order to arrive at wise inflation hedges. In order for a particular stock issue to qualify, the company must be strong and well-established and preferably an old one, with a well-developed export market an extremely valuable asset besides. A new company seeking to gain a foothold during an inflation starts out with two strikes against it because of high capital costs. A well-established firm does not face this difficulty, and its stocks reflect this fact. It should, in addition, be in operation to prevent non-operating costs from diluting capital.

Yet without a good management, even the soundest company would soon go on the rocks. Conservatism, however, does not constitute the most desirable attribute of good management during an inflation. On the contrary, conservatism may spell ruin in such times when the best investments during normal times become virtually the worst. Management must, above all else, stand ready to accept inflation for what it is, and change its policies accordingly. It must not follow the widespread rush into tangibles, as unwise expansion of productive capacity will prove a burden during the inflation and particularly afterward when industries whose products were formerly hoarded can no longer find a ready market. If a flight from cash is to take place, it should be in the form of plant and equipment improvement and modernization, or in the form of inventory accumulation, but an increase in production facilities should be shunned. Even so, the most important problem facing management during inflation is the matter of keeping the company in a liquid position to meet all emergencies.

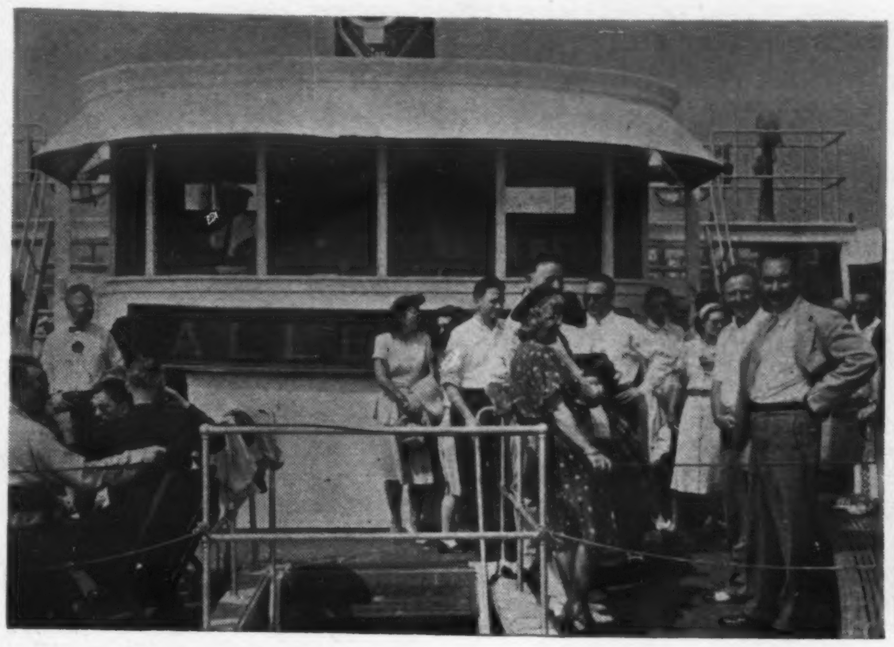
In the light of these enu-

nerated characteristics of a good inflation hedge, it is interesting to summarize again those securities which came out best in the postwar inflations on the Continent. A perfect hedge, both of capital and income, was achieved by fire insurance stocks in Italy, and even in the "hyper-inflation" of Germany, stocks of the old fire insurance companies proved excellent hedges. The newer companies, anxious to meet the demand for low-cost insurance, lowered their insurance standards and suffered accordingly. Stocks of well-run casualty insurance companies, too, were good hedges. Again, in Austria, good mining stocks provided 100% hedging possibilities, and the same type of stocks turned out well elsewhere, so long as the companies selected were operating and not just prospects, and so long as the minerals did not constitute marginal deposits. Producing oil companies with ample resources likewise were good hedges. Stocks of good textile companies and of chemical companies already serving an export market also offered highly satisfactory hedging possibilities. Needless to say, foreign securities of countries with a more stable currency were excellent hedges, especially in the early stages of inflation when domestic stock prices were slow ot respond to currency depreciation. As in the case of Germany, once paper prices caught up with gold exchange rates, domestic stocks became more attractive until eventually these came to possess better hedging opportunities than did foreign securities.

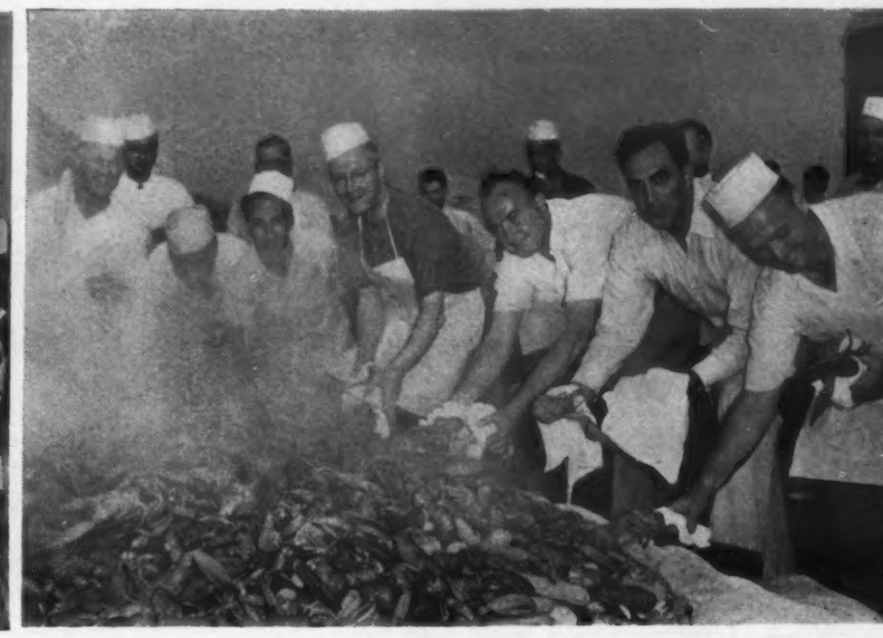
IV.
Switching from Common Stocks to Bonds

While bonds offer no hedging opportunities whatever during the time an inflation is in progress, they cannot be spurned altogether in a complete hedging operation. For a hedge to be entirely successful, it generally becomes necessary to get out of common stocks and into bonds just before stabilization takes place, or very soon thereafter, for one or both of two reasons.

Because of the extreme hardships borne by creditors during inflation, the possibility exists that these may receive preferential treatment through the passage of post-stabilization revalorization laws. Such was the case in Germany, though French and Austrian creditors fared no better than other groups. Mortgage holders were awarded the most gratifying settlement in Germany when mortgages were finally fixed at 25% of their face value.



On the Excursion Boat "Allerton"—chartered for the trip to Pemberton Inn for the Clambake



At the Clambake

Ordinary bondholders, however, had to satisfy themselves with a 2½% parity. Meager though it may seem, it was, nevertheless, a sizable concession, considering that the currency was stablized at one trillion paper marks to one new mark based on gold bullion.

More important still than the vague possibility of a favorable settlement working to the advantage of bondholders is the serious predicament of a post-inflation business recession and a dumping of stock hedges. Companies that produce goods in which the wage-earner hedges experience a serious slump in demand as soon as stabilization gets under way. Instead of investing more in these goods, people begin to use up their hoards, so that the inflationary prosperity of these companies disappears, earnings diminish, and stock prices fall. Not only does the demand for these hoarded goods decline, but the same goes for demand in general. An inflation leaves a country generally impoverished, so that those companies which expanded productive facilities during inflation find an excess capacity on their hands. Even where such expansion did not take place, sales decline, profits drop, and stockholders generally begin to suffer.

With stabilization the need for hedging in securities also vanishes, and the temptation to sell securities held through the inflation is very great. Stock prices fall sharply with such a selling wave, and equity values disappear. It is therefore necessary to beat the gun on selling out common stocks before the first overtures on stabilization are made, or else to hold the equities for a year or two until the market settles down to normalcy. But even then,

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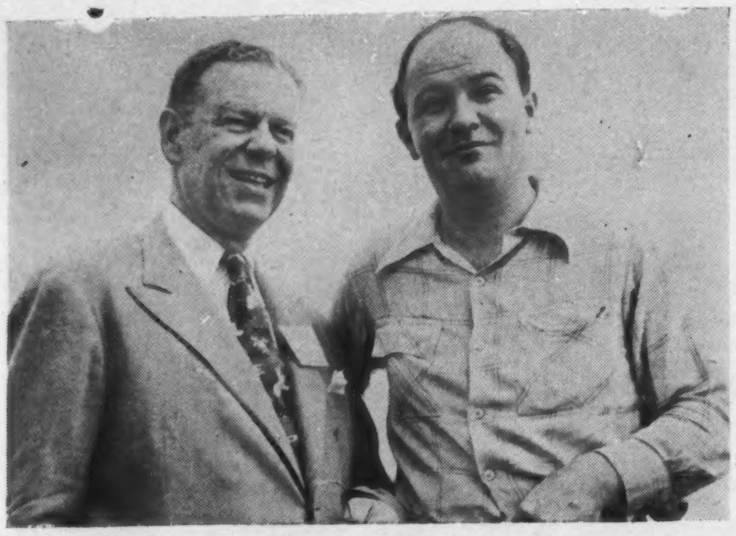

Joseph Sener, *Mackubin, Legg & Co.*, Baltimore George Lestrang, *Arthurs, Lestrange & Klima*, Pittsburgh

J. Frank Keane, *Elmer Bright & Co.*, Boston; Thomas A. Kirwan, *Thomas A. Kirwan & Co.*, Boston; Willis E. Pattison, *Elmer Bright & Co.*, Boston

Charles King, *Bankers Bond Co.*, Louisville, Ky.; Robert Diehl, *Wm. R. Staats Co.*, Los Angeles (holding lobster)

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declining earnings in an impoverished country loaded down with excess capacity make the first proposal the wisest choice.

While common stocks provide the best hedge over the inflation years, it is, then, important to sell them at the right time when they are still high-priced, before stabilization turns profits into losses. Thereafter, bonds become more advantageous, with their prior claim on limited earnings and the obligation to be repaid at maturity, repayment after stabilization no longer adversely affecting the bondholder because of the low purchasing power of a depreciated currency.

The post-stabilization speculative boom in France, however, led stock prices even higher than they were during the actual inflation, so that in France stocks remained a profitable investment, but the bull market made the bonds also progressively more attractive. France meanwhile experienced also a period of increased production.

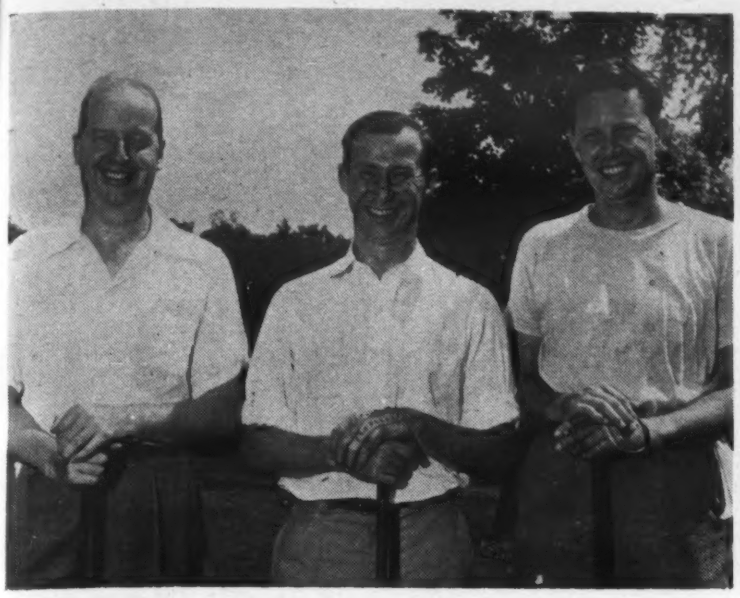
V.
Wisest Investment of Money To Keep Capital and Make It Grow

With fixed interest rates dragging down bond prices as the money markets eased up, it became impossible to maintain more than a small fraction of the value of a fund if this was invested in bonds throughout the inflationary period, regardless of whether the locale was France, Germany, Austria, or Italy. Therefore, capital growth was completely out of the question as far as bonds were concerned. Similar fixedness on the part of preferred stocks also ruled these out as possible satisfactory investments.

For both capital maintenance and growth, reliance had to be placed in common stocks. Prices of selected groups of stocks tended to move with the cost of living and with gold exchange rates. To the extent that the stock prices kept up with the latter, invested capital was maintained; and some capital gains were indeed possible during inflation, as was the case particularly with fire insurance and mining stocks.

While selected textile and chemical stocks also offered growth opportunities during the temporary prosperity experienced while inflation was in process, this growth ceased upon stabilization, when hoarding ended abruptly and dumping began. Newly erected plants were forced into idleness and abandoned as purchasing power became insufficient to absorb the increased production. Company earnings fell off sharply, as may be witnessed from the fact that virtually no company paid dividends in the year of German stabilization. Under the circumstances, stock prices experienced a sizable slump (entirely collapsing in Germany), with stockholders being left with only paper profits, unrealizable as paper currency prices collapsed. It is in these post-inflationary crises that fire insurance stocks proved their outstanding merit.

Fire insurance is so well



F. E. Maguire, *Stroud & Co., Inc.*, Philadelphia; Geo. S. Payson, *H. M. Payson & Co.*, Portland, Maine; Jack C. Morris, *Courts & Co.*, Atlanta, Ga.

Alester G. Furman III, *Alester G. Furman Co.*, Greenville, S. C.; Clarence A. Horn, *First of Michigan Corp.*, Detroit; Robert B. Dixon, *McDaniel Lewis & Co.*, Greensboro, N. C.

Irving Gersten, *Gersten & Frenkel*, New York City; John Latshaw, *Harris, Upham & Co.*, Kansas City; John O'Neill, *Stein Bros. & Boyce*, Baltimore

entrenched that it is looked upon as a necessary business expense, with the result that fire insurance companies quickly recovered as soon as business showed the first signs of activity after the slump. With this recovery came the rapid restoration of dividend payments, with German fire insurance companies practically all resuming dividends in 1924, though these were lower than those paid during the inflation.

In the light of this remarkable capacity for growth during inflation, combined with the happy faculty of rapid revival after an initial post-inflationary slump, it would seem that fire insurance stocks provide the wisest investment for both the purpose of capital maintenance and growth. In the case of Germany, however, these stocks were closely held and generally unavailable to the public. Under such conditions, the next best choice would be an investment in selected common stocks of mining or manufacturing concerns to provide growth during inflation, with a sale of these taking place before stabilization. A purchase of bonds at that time would, of course, end the possibility of capital growth in view of the fixed principal amount and maturity of bonds. Nevertheless, at stabilization capital maintenance remains the primary objective for a few years until business recovers from the shock of stabilization and the train of events set in motion by this phenomenon.

The patterns set by security prices in the continental inflations after the first World War may suggest the patterns that security prices will follow in any inflation when allowance is made for the difference in conditions.

Mr. and Mrs. E. W. Snyder, *E. W. Snyder & Co.*, Syracuse, N. Y.; Mr. and Mrs. "Duke" Hunter, *Aetna Securities Corporation*, New York City

Sumner Wolley, *Coffin & Burr, Inc.*, Boston; Mrs. and Mr. E. R. Mulcock, *E. R. Mulcock & Co.*, Syracuse, N. Y.

Growing Responsibilities in Distribution

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Suppose, for example, that by hand labor it cost $750 to produce certain goods in 1870, and $250, or 25% of the total cost of $1,000, to distribute these goods. Then assume that, by development of machine methods, the cost of production is cut to $250. If the dollar cost of distribution remains constant at $250, it still has gone up in percentage of the total cost from 25% to 50%. The cost of distribution appears to have doubled but actually the price to the consumer is down to $500, or half of the original total cost.

Innumerable articles which carry a seemingly heavy sales and advertising expense show a gradual reduction in the purchase price of the finished article.

In the 25 years preceding the war, the $1,500 automobile became a much finer automobile at $1,000. In 1910, a tire that would run 2,500 miles cost $25—a cent a mile. Before the war, a tire costing $16 frequently ran 25,000 or even 30,000 miles—less than 1/15 of a cent a mile. The $50 camera became a superior one at $17.50.

You pay ¼ as much for a nationally advertised light bulb today as you paid for an inferior one in 1923. Nationally advertised gasoline, without tax, costs 40% less than in 1925. Vacuum cleaners cost $70 in 1907, but superior cleaners averaged $54 in 1941. Electric clocks are 50% lower in price now than in 1930. The average price of brand-advertised electric irons dropped from $6 to $2.95 in the 15 years before this war. We can all remember when electric refrigerators sold for an average price of $310—and were reduced to $130 14 years later. Electric washing machine prices were reduced from $154 to $69 in 14 years.

In 1929 the average radio set cost $135 and a few thousand people could amaze their friends with a voice from the air. Today the average set sells for $34 and 60 million sets are in use. The price of television sets will undoubtedly show the same trend downward as more and more homes are persuaded to buy.

Thus, one might go on mentioning an almost endless list of commodities and services which have borne a relatively high distribution cost, but have sold for less and less to the consumer.

Great achievements in mass production would not have been possible without equally great achievements in distribution. Each is dependent on the other.

A higher distribution expense is the small price industry must pay for the large economies of mass production. From the viewpoint of our national economy the important point is that the consumer gets better merchandise and better service at a lower cost.

Percentage Costs Will Continue to Increase

What of the future? During the war years distribution costs were relatively low. Both total sales volume and the size of the average transaction were larger, due principally to wartime government spending. Furthermore, many services were curtailed or eliminated.

Now business must resume its forward march to new markets. The war placed overwhelming importance on production. We are now unquestionably able to produce for an economy of abundance. From now on the success of our whole economy depends

(Continued on page 55)

Mrs. and Mr. Otto H. Steindecker, *New York Hanseatic Corp.*, New York City

Mrs. Oliver Goshia, Toledo; Mrs. James F. Jacques, Dallas; Mrs. John F. Egan, Los Angeles; Mrs. Harry L. Arnold, New York City

Growing Responsibilities in Distribution

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upon the success of the distribution factors.

But what about the machinery for distribution? More than half our sales was to one customer—the government, and by-passed the distributors. Sales organizations were largely depleted. Salesmen turned from selling to trying to keep customers pacified without giving them merchandise. The machinery for sales promotion became rusty. Advertising was devoted largely to the preservation of reputations. Selling not only grew soft—but often it became non-existent.

The percentage of the consumer's dollar that went into distribution undoubtedly decreased during the war. When people stand in line to buy merchandise, pay cash for it and carry it away, not as much expense for sales promotion and distribution service is required.

It might be pointed out, however, that if any value is placed on the time of the consumer, and we had some way of totaling the amount of time people spent going from store to store, standing in line and burning up gasoline in their search for scarce merchandise, we would undoubtedly find that distribution cost society more than ever during the years of scarcity.

During the war, department store operating costs dropped from 10 to 20%. Now that consumer resistance is increasing, especially on plentiful items, services such as delivery, credit and returned-goods privileges, which were curtailed during the war, must be resumed. New styling, more sales promotion and advertising will be required to woo the consumer.

After the war sales machinery had to be rebuilt, order-takers converted into salesmen, men and women selected, trained and inspired to do more than had ever been done before.

Much of this has been accomplished but in most lines selling and advertising have not yet been put to a real test.

One out of every five business firms now operating in the United States started within the last three years. Most of these enterprises have known nothing but easy selling and good times. Neither their products nor their names are yet firmly established. They have never faced a recession or a depression, never grappled with falling prices and liquidating inventories. Countless old companies, searching for ways to maintain wartime volume, have launched new products and attempted to invade other fields in which they had had little experience. Now they must step out and sell for they will be among the first to be squeezed when selling again becomes competitive.

Wage rates are advancing in the field of distribution as they have in the field of production. But the opportunity to increase the output of workers in the distribution field is less than in the field of production where mechanical improvement will be an important factor.

Simply by working two or three shifts daily, a factory's output can be greatly increased with a lowering of unit costs. No comparable opportunity exists in the field of selling which depends upon persuasion.

Because of these immediate considerations we shall delude ourselves if we do not realize that as accumulated wants are satisfied, it will be necessary, and advisable, to face an increase in percentage distribution costs.

And the basic trend that has been primarily responsible for the steady increase of percentage distribution costs in the past will continue. The wartime expansion of manufacturing capacity will bring a further transfer of costs from production to distribution. In other words, lower unit production costs will be achieved through the higher marketing expenses necessary to distribute a larger volume of merchandise.

A smaller share of the people will be employed in the factories and on the farms and a larger share will be employed in the distribution and service industries.

Since 1820 the proportion of our workers in agriculture has declined nearly three-quarters. The proportion in manufacturing has increased roughly two and one-half times but reached its peak about 1920 and varied little until the war gave it a temporary impetus. But the proportion in trade and transportation has increased about ten-fold.

The Present Situation

Where do we stand today? Is it possible that we have been so immersed in the problems of reconversion, so enchanted by our contemplation of the unfilled

(Continued on page 56)

Murray Barysh, *Ernst & Co.*, New York City; Abe Strauss, *Strauss Bros., Inc.*, New York City; Carl W. Zies, *V. D. Anderson & Co.*, Cleveland, Ohio

Keating L. Simons, *James Conner & Co.*, Charleston, S. C.; Mrs. Jos. McManus, New York City; Herbert I. Shaw, *Vance, Sanders & Co.*, Boston; Joseph McManus, *Jos. McManus & Co.*, New York City

Growing Responsibilities in Distribution

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wants, so confident that the public had more than enough money to gratify them, that we have been slow to restore distribution to the important place in our thinking and planning that it had before the war?

The war gave forced feeding to production. It brought advances in techniques and increases in facilities that would normally have come gradually over many years.

Now we are attempting to move a wartime rate of production into a peacetime rate of consumption. The machinery of distribution faces responsibilities—and opportunities—which are the greatest we have ever known. The months ahead will require a stepping-up of selling effort.

But if we increase and intensify our selling and advertising, what are our chances of success? Is the potential there?

The market of today is vastly different from the one we knew in 1940. Let's make some comparisons.

It is estimated that by July 1, 1947, the U. S. population will have grown by over 12 million, from 131,669,275 to 144,126,000—or an increase of 9½% in consumers. The number of family units will show a net increase of over 4 million, from 34,948,666 to 39,100,000—or an increase of 12%. Since 1940 six million people have moved from rural areas to the cities where the pattern and standard of living are quite different. Ten million old customers have gone to their reward, 21 million babies have been added to the market and 12 million couples have been married. About 13 million more civilians are employed in non-agricultural pursuits. With weekly earnings increased 73% and 36% more people employed in non-agricultural work, there has been a 135% increase in money income in the aggregate of non-agricultural workers.

The income of the people of the United States stands today at an all-time high of $176 billion—an increase of 131% over 1940. After adjusting for higher taxes and living costs, we still have a surplus income for discretionary spending or saving of $89 billion—more than two and half times the highest prewar level—backed by the largest volume of savings in history.

This is a market with a potential such as we have never known before. Retail dollar sales are up, though unit sales and manufacturers' sales in some lines are down.

The question is this: Will people continue to buy or must we curtail our wartime production level of $200 billion and provide employment for less than 57 million civilians?

In many lines this is an advertising problem. We are dealing with people — their individual needs, whims, desires and abilities to buy. If we doubled the size of our sales organization we would not necessarily double the inclination of people to buy or consume. We cannot continue to sell the trade unless the consumer continues to buy. We must resort to informing and persuading the

(Continued on page 57)

Mr. and Mrs. Jack Rogers, *Hickey & Co.*, Chicago; Geo. Stanley, *Schirmer, Artherton & Co.*, Boston

Mr. and Mrs. Bert Seligman, *Ward & Co.*, New York City; Mr. and Mrs. Geo. Eisele, *Coburn & Middlebrook*, Hartford, Conn.

Responsibilities in Distribution

(Continued from page 56)

ultimate buyer. Advertising uses mechanized methods to deliver these messages to the millions. It is the counterpart in distribution of the machine in production. We have the greatest potential market that American business has ever known. But even though people have money, they must also have the desire to buy.

The millions of families that have moved into higher income groups have not automatically taken on the living standards of those groups. In fact, experience shows that such families tend to retain their old living standards until they are influenced to attain something better. But once they have learned to enjoy a higher standard, they will work much harder to maintain it. These millions of families offer an enormous new potential market for all kinds of goods and services. But whether they buy your merchandise or your competitor's, or use their new surplus in other ways, will be largely determined by how aggressively you go after business.

How long since your sales organization has really been geared up for hard-hitting selling? What are you doing about those 12 million newly married couples and those 21 million babies? They aren't going to buy your products just because their grandparents did.

Is your advertising plan based on your present production capacity and your present market potential or on what you spent under very different conditions in the years before the war?

In the peace-time years between World Wars I and II advertising expenditures averaged about 3% of national income.

Last year's national income was $165 billion.

If the peace-time ratio of advertising to national income had prevailed, last year's advertising volume would have been $4,950,000,000.

Actually, it was only $3,120,000,000.

One reason is undoubtedly that the seller's market continues in many lines. But, month by month industry is satisfying more and more of the pent-up demand.

If these figures may be considered as an index, then they would seem to furnish evidence that our marketing machinery has not yet been stepped up to meet the buyer's market,—or to tackle the increased load placed upon it by our wartime increase in production facilities.

I think it is well to consider these things which affect our entire economy. But I also know it is impossible to generalize. Each business is different. Some may

(Continued on page 58)

Wallace Fulton, *National Association of Securities Dealers;* B. W. Pizzini, *B. W. Pizzini & Co.,* New York City

Mr. and Mrs. John Sullivan, *F. L. Putnam & Co.,* Boston; Mrs. and Mr. James Maguire, *E. H. Rollins & Sons, Inc.,* Boston

Growing Responsibilities in Distribution

(Continued from page 57)

find it necessary to curtail production and hold back selling and advertising effort until inventories are reduced. Many others will find it advisable to increase their sales promotion and advertising in order to maintain their present momentum, and help move the inventories.

We have come to a time the question of price again becomes an important one. The public, rightly or wrongly, believes that with the war nearly two years behind us, the recession of prices to more reasonable levels is in order. Most of us are willing to admit that certain things need to come down considerably in price, while other things do not stand so greatly in need of readjustment.

If the public stops buying all but actual necessities prices would have to come down and manufacturer, wholesaler and retailer alike would be forced to sell their goods without regard to costs. The retail trade sensed this several months ago and mark-down sales have become common. It cannot be expected that merchants will replace their goods with merchandise at higher prices. The problem today is an old one: i.e.—to find the prices and the type and amount of sales promotion that will keep people buying.

I am not unmindful of the increases in the cost of production. But we cannot lower either costs or prices and still maintain profits by speeches, recriminations or edict. That can only be accomplished by greater output per man-hour. That is the key to lower prices, greater volume and a further advance in the standard of living.

No wage that is earned is too high—but it has to be earned. For the long run, prices can be reduced in the space of a high level of costs only if the efficiency of both production and distribution is increased.

The sales resistance being felt in some lines is not due simply to the refusal of people to pay the high prices. Some of it is due to the poor quality of much merchandise that was rushed to the market after the war. Merchants want to get rid of it now and replace it with goods that will give satisfaction. Their customers don't want it for they believe that soon the well-known, dependable brands offering sound values will again be available. In fact, they suspect they may already be in the warehouses or sometimes even under the counters.

Most authorities on the economic outlook predict that the corrective adjustment which we are now experiencing will be followed by a long period of prosperity. Their reasons are that the unfilled demand for goods is unprecedented and that 11 million more people are gainfully employed at higher wages.

If these views are correct then they offer added encouragement to sales executives who have their eyes on the future. And they make clear that for the coming year, objective number one should be to maintain and strengthen relations with trade and consumer—sometimes even at the sacrifice of temporary profits.

I am not an economist and I shall make no attempt to predict the future of business. But of this one thing I am sure. We are going to have more competition than we have had in the last seven years. Some of us will have more than we have ever known. We can't go far wrong if we base our plans on that premise.

Eliminating Operating Wastes

Although I believe that the trend of percentage distribution costs to increase will continue, let no one conclude that I am blind to the opportunities to reduce unit costs.

In distribution, as in other operations, there are wastes in operating efficiency. The cost factors that influence the movement of

Mr. and Mrs. Edward W. Schaefer, *H. D. Knox & Co.*, New York City; Mr. and Mrs. Frank T. Harrington, *H. D. Knox & Co.*, Boston

Douglas R. Hansel, *Wertheim & Co.*, New York City; Robert U. Ingalls, *Tucker, Anthony & Co.*, Boston; Horace Frost, *Tucker, Anthony & Co.*, Boston

goods from factory or farm to consumer have usually not been as accurately measured as those in the processes of production. Scientific controls, which have been so important in reducing production costs, are not yet as widely used in the processes of distribution. Infinitely more time and money have been spent to reduce production costs than in similar attempts to reduce distributing costs. Since the share of the consumer's dollar going for the costs of distribution has gradually increased to 59%, there should be a corresponding shift of research effort to the marketing field.

More and more sales planners are using the engineering approach—informative cost-accounting, objective fact-finding, market analysis, experimentation, testing. In this field lies the chief hope of slowing down the percentage increase in distribution costs.

Great gains are being made through aptitude tests, training courses and other personnel work.

It is unnecessary to remind this audience of the savings that can be made by the elimination of unprofitable accounts, territories and products and the concentration of effort on those that do, or could, yield a worthwhile return.

You know the importance of finding your market, determining what it wants, designing your products to meet consumer needs, and pre-testing products, packages, advertising and selling techniques.

The elimination of waste calls for continuous advertising to a carefully selected audience — not extravagant, stop-and-start effort or campaigns that are spread too thin to be effective.

It requires making sure in advance that a new product is something that prospective buyers want or can be influenced to want, at the price it is to be offered; that it has one or more unique advantages that will give it a chance in competition with similar products; that its quality will be consistently satisfactory; that it can be delivered to the trade at the time promised and be easily available when the consumer reads the advertising or hears your radio commercial.

These things call for simple common sense, careful planning and coordination, but how often these basic principles have been violated — especially during the last two years, in the effort to rush new products to market. We eliminate waste too when we refuse to tear down our competitors by negative selling and when we bring about a better understanding of distribution by the critics of our competitive system.

Yes, there are wastes in distribution. But they are the same kinds of wastes due to bad judgment, insufficient study, inadequate planning and inefficient administration that can be found to some degree in all operations. Let's minimize the leaks and wastes in distribution. But this is no time to fall for that old catch-phrase "Distribution costs too much." Sooner or later our problem would be not the cost of distribution but the cost of lack of distribution.

That generality can become a dangerous concept. It takes management's eye off the target. More than that, it fixed it on the wrong target.

Our true target is not lower distribution costs per se, but lower consumer prices.

Paradoxically, the way to lower the unit costs of distribution, as well as production, is sometimes by spending more. Very often if you promote your product harder you sell enough more to reduce the unit cost of distribution.

It has been wisely said that nothing happens in our economy until something is sold. Consumer demand — not management — not the unions—dictates the number of jobs in our production system.

The assignment today is to sell the consumer about twice as much goods as we did before the war, or drastically curtail our productive capacity. Perhaps our distribution isn't costing enough.

Certainly the buyer's market is here. But that's like old times. It's why business has needed sales managers, salesmen and advertising as long as we can remember. But let's rename it "a market of buyers"—and go after it.

Jack Sammon, *J. F. Sammon & Co.*, New York City; King Ghegan, *Kalb Voorhis & Co.*, New York City; Wilfred G. Conary, *J. Arthur Warner & Co.*, Boston

Harry J. Steele, *Fauset, Steele & Co.*, Pittsburgh; Frank L. Satler, *Moore, Leonard & Lynch*, Pittsburgh; Mrs. and Mr. Ray Doheny, *General Stock & Bond Corp.*, Boston

What's Ahead for Utilities?

(Continued from page 14)

one company's slogan reads, "is our business."

According to a joint survey of the SEC and the Commerce Department, the new capital investment of electric and gas companies alone in 1946 were slightly above a billion dollars or almost double the previous year's expenditure and greater than any previous year. It estimates the 1946 figure will be exceeded in 1947, and should reach a total of more than \$1½ billions. This is a large amount of new capital investment. At least two-thirds of it must be obtained from investors. Whether the expansion programs of the individual companies can be carried out will thus depend not only on the condition of the capital market (which has been abnormally sluggish, considering the level of business activity and prosperity) as well as the availability of new equipment and construction materials. Under the present low interest rate pattern, it would appear to be wise policy for companies contemplating expansion to do their financing now, but, having in view the results of recent offerings, such as the New York Telephone bonds, together with the general apathy of investors, there is a likely chance, unless conditions change, that absorption of new capital issues, whether stocks or bonds on the scale contemplated will be slow and difficult.

Another factor affecting the problem of acquiring new investment capital is the question of utility company capital structure. The low level of long-term interest rates leads to the temptation to create excessive bonded indebtedness. In this matter, the utilities should certainly endeavor to avoid the past errors made in roadroad capitalization, i.e. the constant piling up of bonded indebtedness and fixed charges, thereby weakening ability to withstand long periods of depression and reduced net earnings. But to expand through capital stock issues means current net earnings sufficient to pay ample dividends—otherwise stocks cannot be sold to investors looking for income rather than appreciation. It means, also, that stock dilution must be avoided, since financing by utilities as by most any other business through capital stock alone entails normally a lower rate of return to stockholders, who bear the greatest risks in investment. Moreover, it removes the speculative possibility of gains from "leverage." Government rate regulation has a tendency to restrict earnings below a fixed maximum on capital investment leaving thus little hope for continued equity appreciation to the shareholder.

Government Power Policy

A factor in the future of utilities, particularly the electric power industry, is the trend of Federal water power policy. Since the late President Roosevelt initiated the Tennessee Valley Authority, with the objectives to launch the Government into business and, at the same time, fix a "yardstick" for rates, Federal owned power projects have multiplied and have caused private companies serious concern. At present there is no clear Federal policy. Recently, Senator Elmer Thomas (D-Okla.) has suggested a halt on all new public power projects until an overall program is decided upon. He characterized the present program as "chaotic."

"The Government is getting into a very large public power development," he said, "and there is too much overlapping and confusion. We need an overall agency and policy." He added that every large reclamation project has a public power system, that all projects are administered separately, and that "every one of these agencies has a separate Washington (D. C.) office."

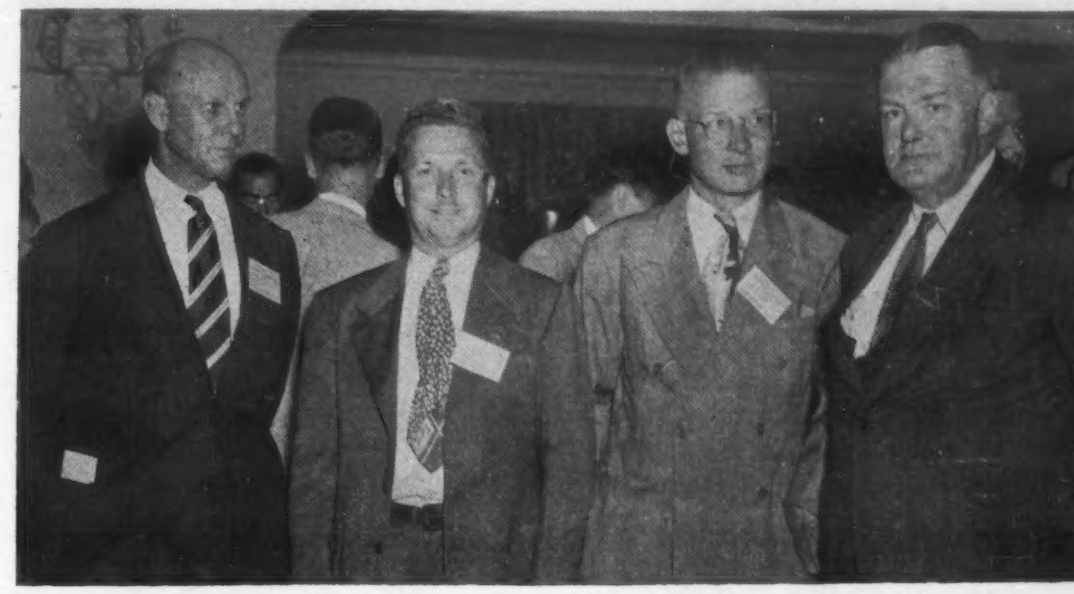
"The efficiency of the country will be served by some one overall agency in charge of all these projects," he added, "and at a later date I am going to introduce a bill to stop further construction of new projects until we get an overall public power policy."

Senator Thomas' suggestion of a single Federal Power agency does not mean that government sponsored projects will cease. But, in view of the Republican Party economy drives and the present heavy cost of construction of all kind, it is not likely that the proposed "Missouri Valley Authority" or other similar undertakings are in the offing.

Yet, despite the opposition to President Truman's admonishment against slashing the Interior

(Continued on page 61)

Wm. Perry Brown, *Newman, Brown & Co.*, New Orleans; Milton J. Isaacs, *Straus & Blosser*, Chicago; H. F. Burkholder, *Equitable Securiries Corp.*, Nashville, Tenn.



Roger Eckfeldt, *White, Weld & Co.*, Boston; Edward F. Hormel, *White, Weld & Co.*, Boston; C. J. Odenweller, Jr., SEC, Cleveland; Paul Rowen, SEC, Boston

What's Ahead for Utilities?

(Continued from page 60)

Department's budget for power projects, the electric power industry is fearful that the Senate will act to restore the substantial funds requested by the Administration.

The Interior Department's request for $295,000,000 was cut to $161,000,000 for the fiscal year beginning on July 1, by the House last week. Significantly, it was asserted that the Interior Secretary, Julius A. Krug, had "knowingly given the wrong picture" before Congressional committees early in May when he told a Senate committee considering appropriations that power generated at proposed sites could be sold for "2 mills per kilowatt hour." This statement was considered deceptive in view of the fact that contracts have been signed recently providing that the Kaiser interests could buy power at the Bonneville dam at the low rate of 1 mill. Certainly, this form of subsidized competition against private utilities is uneconomical.

Whatever policy Congress may pursue with reference to Federally owned and subsidized power projects, one consideration must be borne in mind. If private ownership and operation of public utilities is to continue to expand in accordance with public needs, their earning power must be protected. Rates cannot be continuously kept down to a minimum by regulatory bodies, or indefinitely increased to meet heavier costs imposed by employees' demands, higher fuel costs and governmental requirements. The squeeze on the utility investor will eventually block the flow of capital into utilities as it has already done in the case of railroads. The only alternative then will be government ownership and operation—the first step toward complete nationalization of industry.

Charles Smith, *Moors & Cabot*, Boston; Jack Shea, Jr., *Shea & Co.*, Boston; John Maguire, *May & Gannon*, Boston

Mr. and Mrs. Dayton P. Haigney, *Dayton Haigney & Co.*, Boston; Mrs. and Mr. Walter Saunders, *Dominion Securities Corp.*, New York City

Free Enterprise—A Challenge to Business

(Continued from page 7)

was the land of promise, opportunity and freedom. Were it not for those bars to immigration today we would be flooded with people. The meanest level of living in this country is far superior even to the average level of living of a good many countries including those that have beat the drums loudest and longest about the advantages of the socialistic system. Let those either here or abroad who deprecate the achievements of the private enterprise system answer a question: If they are Americans, ask them whether they would rather live in the United States than elsewhere, and why. If they live in Europe, ask them what would happen if the facts about this country were freely available and immigration were not restricted.

So long as we rely primarily upon a system of private initiative and competition to obtain our livelihood there is but little pressure to deny our citizens the basic political freedoms. Once, however, governments undertake to plan the economic life of their citizens, then free speech and a free press and free elections can become and often are a menace to the planned program. It is not by accident that such political freedoms are not allowed in the Soviet dominated countries. Whether they can be allowed under a democratic socialist system such as that undertaken by England we will eventually find out. Although the present position of England is by no means a fair test, it is significant that Mr. Attlee, the Prime Minister, in planning for an increase in productivity and the direction of effort into the "most fruitful" channels, said last week that this "will involve some sacrifice of individual liberty—by both employers and workers."

It is doubly important today that we make our system work. It is important on the one hand because we wish to preserve within this country the institutions which we cherish, but it is more important that we meet the test in which we are engaged. Our system is in conflict politically, economically, and spiritually with an opposing system. We must make it work to strengthen and support our foreign policy and to give aid and comfort to our friends in other nations lest they be submerged under the avalanche of totalitarianism.

The Supply of Money and Credit

At the moment there seems to be little doubt that the private enterprise system is working. It is producing at the highest peacetime level in history. It has provided the legendary 60 million jobs. But remember that we are still hopped by that narcotic shot in the arm administered by the war and by the method of financing the war. We are experiencing the after-effects of the greatest volume of pump priming that the world has ever seen. We created during the war an abundance of purchasing power, much of which is still held by business and the public, while at the same time we shot away the production which was responsible for that purchasing power. There should be little wonder that we have had a backlog of needs and of demand which seemed almost insatiable and which even today still exists in a great many lines. This same excess of purchasing power, and the desirability of reducing it, has been responsible for some selective credit control. May I remind you that the supply of money and credit in this country is not and cannot under existing law be determined by natural forces. It is subject to the over-riding controls of administrative agencies of the Government. Whether we can maintain continued prosperity and stability depends importantly on the wisdom with which we manage the supply of money and credit.

Competition on Way Back

We shall be faced soon with a test for private enterprise on grounds less favorable than those that we have enjoyed during the last year. Competition is on its way back. What will we require in the future in order to make the private enterprise system work effectively? What will businessmen need to do in order to do their part to make the system work effectively?

We shall need first of all a revival of the spirit of enterprise and risk-taking which is one of the prime justifications for the private enterprise system. We shall need more men who are willing to invest in new products and new processes. The dead hand of security has touched not only the worker; too often it has touched the investor. We have, for example, an enormous reservoir of capital in institutional hands in New England. In 193

Kelly, *Carl M. Loeb, Rhoades & Co.*, New York City; John J. Mullen, *Garrett, Bromfield & Co.*, Denver; Frederic F. Latscha, *Frederic Latscha & Co.*, Cincinnati

Mr. and Mrs. Charles Scheuer, *Scheuer & Co.*, Chicago; Mrs. and Mr. Elmer Hammell, *Caswell & Co.*, Chicago

investments of insurance companies, banks, government trust funds, endowed institutions, investment trusts and other investment institutions amounted to more than $10½ billions. We must find, and we are now trying some way to tap such funds for use in new and growing enterprises. We must have an institutional substitute for the merchant-capitalist of the past who backed promising local enterprises.

To strengthen the spirit of risk-taking on the part of the investor we shall also need a revision of the tax laws and especially the laws and regulations governing the retention of earnings by small firms for the purpose of expansion, and the regulations governing allowable depreciation.

We shall need a revival of competition and above all a willingness to accept the dictates of competition. For business this means striving constantly for lower prices, for lower costs, for an improved product. It means for labor, for agriculture, and for many businesses a willingness to give up support from the public purse. It may mean lower tariffs, elimination of subsidies on farm products. It means, especially for labor, elimination of restrictions on who may do what work. For instance there are well-known situations in some of the building trades where apprentices are not allowed to learn the trades in sufficient numbers to meet the needs of our economy. That the general public is becoming aware of the necessity of action is evident and it is hoped that we may obtain fairly and sincerely a correction of these abuses without the destruction of individual freedom.

The Test of Results

A major test of the system, however, is not the test of method, but the test of results. The system must provide reasonably full employment with rewards to labor, management, and capital which make it continually attractive. If business cannot remain reasonably prosperous at all times then we shall find enough discontented people to give dangerous support to alternative arrangements.

A system of free enterprise has been continually attacked because it does not provide enough "built-in" stability. We have got to find means of building into the system enough stability to keep it attractive. This is not an impossible job. We can go a long way by smoothing out the peaks and valleys in public construction projects of all types. Your influence could help a great deal to smooth out the peaks and valleys in capital expenditures because financing often dictates the timing of such expenditures.

Building a Backlog for Leaner Times

Along the same line, this is the appropriate time not only to balance budgets, Federal, state and local, but the time to be piling up surpluses for the double purpose of retiring debt and building up a backlog of expenditures for leaner times that we may face in the future. The recent controversy over the budget and tax cutting is a part of this test of our system. This is not an appropriate time to make large tax cuts, much as we should all like to have our tax bill reduced. I see no reason, however, why we should not have a thorough overhauling of our tax system to remove inequities and to provide incentives to growing businesses and for modernization and expansion of all businesses.

I know that some of the things that I have said are not likely to be popular. They are, I think, the things which we will have to do to preserve this system of ours. Ours is the responsibility. Ours is the opportunity, and if we miss this opportunity we will have missed our chance.

Some long-time students of Lincoln place among his sublime passages the one that closed this 1862 Message: "Fellow citizens, we cannot escape history. We of this Congress and this Administration will be remembered in spite of ourselves. No personal significance or insignificance can spare one or another of us. The fiery trial through which we pass will light us down, in honor or dishonor, to the latest generation. . . . We shall nobly save or meanly lose the last, best hope of earth."

Mrs. D. C. Leahy (guest); Mr. and Mrs. Arthur C. Murphy, *Bond & Goodwin, Inc.*, Boston

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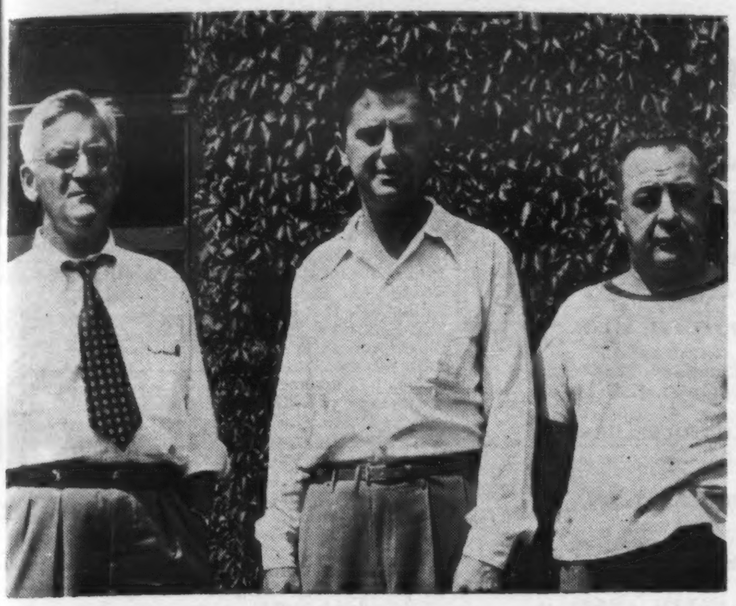

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Roster of Advertisers in NSTA Convention Issue

The Tax Battle on the Potomac

(Continued from page 11)

that this is the wrong time for tax reduction. Cynics may read into this statement the interpretation that 1948, an election year, would be considered to be the right time. Such a construction is passed over here, in order to examine the economic logic which is used to support the criticism of timing.

To begin with, this writer holds the view that any time when budget conditions will permit of tax reduction is a good time to do it. Taxes are always burdensome, and when they are high, it means that the people are deprived of a larger share of the fruits of their labor or their saving. As pointed out above, they have to work a greater part of the time for government. No matter how much or how little one's income, it is more satisfying and more inspiring to be able to decide what to do with it than to have some one else make that decision. Through taxation, government rather than the individuals who get the income by working, or saving and investing, does the spending. As taxes come down, we all have a larger share of our respective incomes for our own uses. This tends to stimulate the production of more income, with the result that the aggregate public revenues may even be greater, despite the reduction of tax rates.

Three major points were developed in support of the contention that this is the wrong time for tax reduction. The first was the proposition that the debt must be reduced. The second was the proposition that with full employment, no present opportunity for additional capital investment exists, hence there is no present need to provide additional funds through greater savings. The third was the proposition that tax reduction now would be an inflationary force which would increase the danger of a recession. The conclusion was reached that while employment and production continue at present levels, tax rates should remain as they are and the whole surplus should be applied to the debt. It was further concluded that when signs of a recession appear would be the time for tax reduction. This viewpoint was emphasized by Secretary of the Treasury Snyder in his testimony before the Congressional committees in charge of the tax bill.

Red Herring of Debt Reduction

The debt reduction argument has been, in a sense, a red herring across the trail. Thus far, Mr. Truman has not submitted a budget containing provision for debt retirement out of surplus revenues. On the contrary, he has apparently been more concerned with maintaining a high level of Federal spending than with anything else. The evidence of this is his complete lack of cooperation with the Congress in its attempt to reduce Federal expenses, an attitude revealed by the absence of curbs upon the efforts of high administration officials to defeat the Congressional purpose.

The fruits of this propaganda, so far as it has concerned national defense, have been rounded up by Mr. Hanson W. Baldwin in a dispatch to The New York "Times" of July 17, 1947. The gist of Mr. Baldwin's article was that all the talk about the weakness and inadequacy of our defense establishment had done us mischief abroad since it had been taken seriously there. He pointed out the failure of foreigners to understand that all such talk was solely for home consumption, being a device resorted to by the high brass from General Eisenhower down in an effort to force Congress to adopt universal military training and to ward off any cuts in the defense budget. Actually, Mr. Baldwin said, we have far and away the strongest navy in the world and an army which is greatly superior to the Russian army in equipment, though not in numbers. The behavior of the Customs Bureau, the Bureau of Internal Revenue, and other agencies in their resistance to budget cuts was quickly detected for what it was, but many people here as well as abroad took seriously the allegations about defense which Mr. Baldwin now shows to have had an ulterior purpose.

Tax reduction and debt reduction are not mutually exclusive alternatives. During the 1920's both of these desirable purposes were achieved. Notwithstanding the zeal with which the Administration of that time pushed for debt retirement, it proved possible to grant more and more tax relief throughout the income scale in a series of tax revision acts. The nation was prosperous then, but it is prosperous now. The President's mid-year economic report make this plain to those who had not already been aware of the fact. In view of this unparalleled prosperity there is no reason why both tax reduction and debt reduction cannot proceed together. This view is rejected however, in the second veto message, where it is said that there will not be a sufficient surplus to permit of both reductions. The only basis for such an opinion is that the spending will not be sufficiently reduced, and the President does not expect this to happen.

There is an odd inconsistency of emphasis in the veto messages. Stress is laid both upon debt reduction and upon the large amount of spending that is said to be necessary. Although the war ended in 1945, war obligations are still being used as a smoke screen to explain and defend the spending; and, particularly in the second veto, the changed foreign situation is brought in. Even the Administration will have to choose between debt reduction and spending as the main line of argument against tax relief. No matter how high taxes are, there will be no debt reduction if all of the money is spent for current purposes. And if the spending is cut, then perhaps we can have a cut in taxes as well as in the debt.

Foreign Aid Program

The foreign aid program does not really require an increase of total spending. It does involve a rearrangement of priorities in the spending program. If it is necessary to devote several billion dollars to European aid, then an approximately equivalent amount should be squeezed out of the domestic spending. When the average family that has saved up enough money to buy a new car finds that a member of the family must undergo a costly operation, the sensible thing is to give up the car for the time being. Aid to Europe is analagous, for the nation, to the unexpected operation for the family. We can easily cut out and cut down enough on the fancy things that have been planned here to pay for the operation.

Even if it be true that the expenditures authorized by the Congress for the fiscal year 1948 are not to be, in total, substantially less than the original budget estimates, too little account is taken of the effect of the rising level of national income upon the Federal receipts. There has been a consistent tendency to under-estimate receipts, possibly in order to build up a case against tax reduction. The record of such under-estimating for the fiscal year 1947 is as follows:

Date—		Budget Estimates of Federal Net Receipts for Fiscal Years (in Billions) 1947	1948
January,	1946	$31.5	---
August,	1946	39.6	---
January,	1947	40.2	$37.7
Actual,	1947	43.3	

It will be noted that when the first estimate of receipts for the fiscal year 1948 was published, in the budget sent to Congress in January, 1947, the pattern of under-estimating receipts was apparently being laid out for 1948 as it had been for 1947. In the meantime, the rise of national income which had invalidated the estimates for 1947 continues and the later budget estimates of net receipts for 1948 are likely to be revised upward as were those for 1947. The mid-year economic report shows that the income payments to individuals, which were $177.2 billion in the calendar year 1946, were at an annual rate of $191.1 billion in the first half of 1947. Because of a complete revision of national income concepts, definitions, and methods of estimating, these figures are not strictly comparable with the data formerly used in calculating tax yields. Nevertheless, it seems clear that with a continuation of income payments, or "personal income" as it is now called, at a much higher rate than heretofore, the Federal net receipts in 1948 will be much above the actual amount realized in the fiscal year 1947. Final returns on the spending for 1948 are not yet in, but the preliminary count indicates approximately $35 billion. Even if the receipts for 1948 should be no greater than the Joint Committee estimate of $43.6 billion, there would be a substantial margin for both debt reduction and tax relief.

The second ground for opposition to the tax bill because of alleged bad timing was that there is now full employment, hence no present opportunity for additional capital investment, hence no present need to release personal income for that purpose. This is a concession of the obvious fact that under present tax rates, very little individual saving is possible and small likelihood exists that even the amounts that can be saved will be invested in venturesome undertakings. The argument reveals, however, an inadequate understanidng of how our complex economic system works. For one thing, there is a necessary and inevitable lag between the time of tax reduction and the accumulation of additional savings out of income. There is a further lag between the accumulation and the final conversion of the savings into capital equipment through investment. A delay of the tax cut until signs of a depression appear, as Secretary Snyder urged, would be too late to be of help in halting the depression, in so far as fresh capital supplies would contribute to that end.

Furthermore, it must be noted that the labor force is continually expanding through the net increase of the population. From 1940 through the first half of 1947 the civilian labor force expanded on the average, by 500,000 persons per year, notwithstanding the withdrawals into the armed forces during this period. The full employment figure of 1947 will shortly represent under-employment, unless more jobs are provided year by year. Additional capital must be supplied in order to provide more jobs. This addition cannot be created over night, like drawing water out of a faucet. Unless action is taken with reasonable promptness, through tax reduction, we shall face before too long the prospect of a rise in unemployment because we were not sufficiently forehanded in releasing income from the sterile purposes of government into the fruitful purposes of trade and industry.

It is entirely erroneous, also, to say that there is no present need of capital investment because of the current high production. The Committee on Postwar Tax Policy, in its 1947 report, demonstrated the great shortage of capital, here and elsewhere throughout the world. One need only consider, as examples, the average age of the motor vehicles now on the roads, and the decrepit condition of railroad rolling stock, to realize that we face an enormous job of rebuilding and replacement. Beyond mere replacement is the matter of improvement. We need not only more capital in the quantitative sense, but also better forms of capital. The continued growth of productivity per man-hour which is so essential to an advance in the standard of well-being requires that the workers be equipped with better tools as fast as invention makes them known. Improvement of quality requires additional investment.

As a final point in this connection, there are the new fields of enterprise to be exploited and developed. The mature economy doctrine which had such vogue ten years or so ago has gone with the wind. Our concern now is whether we shall be able to supply the capital that will be required for the production of the new goods which technological advance has made possible. Certainly we shall not unless there is a drastic revision of the individual income tax throughout the income scale.

The Inflation Argument

The third basis of opposition to tax reduction now was that such a course would add to the inflationary pressure. This curious, and in the writer's opinion, wholly erroneous notion got into the recent economic report, probably because it is the present party line. In that report the following is said:

"While the American people look forward to relief from the burden of taxes, tax reduction now would add to the existing temporary inflationary pressures."

With all due respect to the learned council of economic advisers, this is complete and utter nonsense. It implies that to let the people spend more of their own incomes rather than let government do the spending, would produce greater inflationary pressure. It implies that when government takes purchasing power away from the people, through taxation, and spends it, there is a smaller total demand for goods and services than exists when the people are free to spend their own income.

The simple fact is that taxation and public spending is a transfer process which does not change the overall total of buying power in the community, and which, therefore, can have no effect upon prices, or upon the demand for goods and services. A large part of the money taken in taxes is paid out in salaries, benefits, settlement of contractors' claims, and interest on the public debt. Taxpayers can buy less, because of the taxes, but the government employees and beneficiaries fill the gap. Government buys cement and other materials to build roads and public buildings, whereas the citizens would have used the cement, etc., to build a garage or a factory. Altogether, there is only a negligible difference, at most, in the aggregate demand, because of taxes. If they are reduced, the people spend more but government spends less. It is utterly naive to say that private spending will tend to push prices up more than public spending.

Conclusion

To conclude: H.R. 1 was not, in all respects, a good bill. It made too much concession to the demagogic viewpoint that taxes on the upper ranges of income should not be at least proportionately reduced. It did not attack the basic evil of the present income tax, which is the rate scale itself. Its advocates should have made more clear than they did that this bill was to be in the same position with respect to the ultimate revision of the individual income tax as was the 25% reduction across the board which was authorized in connection with the broad revision of the tax rates by the Revenue Act of 1924. As to timing, it may already be too late to begin that relaxation of excessive war taxation which is so essential to the provision of the additions to the capital fund upon which the future prosperity and well-being of the nation depend, if we are to escape the consequences that are most likely to ensue from a deficiency of capital.